



HDFC Life Insurance Company H1 FY26
Earnings Conference Call

October 15, 2025

Vibha Padalkar:

Good evening all and thank you for joining us for our earnings conference call for half year ended September 30th, 2025. Our results, along with the investor presentation, press release and regulatory disclosures, have been made available on our website and the stock exchanges.

Joining me on today's call are Niraj Shah, Executive Director and Chief Financial Officer; Vineet Arora, Executive Director and Chief Business Officer; Eshwari Murugan, Appointed Actuary; and Kunal Jain, Head - Investor Relations, Business Planning and ESG.

Macroeconomic Context:

FY26 has progressed on a stable footing for life insurance, even amidst persistent global uncertainty driven by geopolitical tensions, trade disruptions and uneven growth across economies. Closer home, the Indian economy continues to demonstrate resilience, supported by stable GDP growth and encouraging signals from rural markets, helped by a generally good monsoon and improving farm incomes.

While early festive trends have lifted sentiment, high-frequency indicators present a mixed picture. Urban demand remains patchy, and some consumption indicators have moderated. In this evolving macro environment, we remain focused on disciplined execution and delivering sustainable long-term growth.

The recent GST revisions are a constructive structural shift aimed at simplifying compliance and improving affordability. We have ensured that the full benefits of the GST exemption are passed on to our customers. With product pricing now more attractive to customers across segments, we expect to see stronger demand over the medium to long term. While the withdrawal of input tax credit may result in short-term margin pressure, we are confident, similar to the surrender value regulation changes, of managing this effectively over the next 2-3 quarters through operational adjustments and close distributor engagement.

Stepping back, the life insurance sector remains structurally well-positioned, anchored by long-term savings demand, increasing financial awareness and a deepening protection mindset. Our diversified product suite and balanced distribution architecture equip us well to navigate near-term transitions while staying aligned with the sector's robust long-term growth potential.

Business Performance:

H1FY26 concluded with topline performance broadly in line with expectations. Individual Annualized Premium Equivalent (APE) grew 10% year-on-year, translating into a healthy 2-year CAGR of 20%. We outperformed both the overall industry and the private sector, resulting in a 90 bps increase in overall market share to 11.9%, and a 30 bps gain in private market share to 16.6% for H1FY26.

Growth was broad-based, with several encouraging trends. Tier 2 and 3 markets clocked faster growth compared to Tier 1 cities, reflecting our continued success in expanding reach beyond metros. Over 70% of new customers acquired in H1 were first-time buyers with HDFC Life, reflecting our ability to deepen reach and tap into new customer segments as we incorporate our learnings into our customer onboarding process, underwriting approach and product offerings.

Business momentum was driven by a combination of factors i.e., higher average ticket sizes, sustained traction in ULIP and Par products and resilient demand across income segments. Growth in number of policies remains at a healthy 2-year CAGR of 9%.

Renewal collections grew by 18% year-on-year. Persistency ratios were stable, with 13-month and 61-month persistency at 86% and 62% respectively. These trends reflect the underlying product and tier mix.

Product Mix:

Our product mix in H1FY26 remained well-balanced and aligned with evolving customer preferences and market dynamics: with ULIPs contributing 42%, participating products at 29%, non-par savings at 18%, term at 7% and annuity at 4%.

ULIPs continued to witness strong inflows, driven by a combination of positive equity market sentiment and a steady customer appetite for market-linked returns. Our ULIP offerings are designed not only to capture this demand but also to provide enhanced protection benefits via higher sum assured multiples and flexible rider options.

Participating products maintained steady demand, supported by recent launches and a preference among customers for lower-risk instruments amidst macroeconomic uncertainty.

We are beginning to see a pick-up in demand for non-par savings products, supported by the steepening yield curve and higher customer appreciation for long-term guaranteed solutions.

While we have seen varied pricing approaches across the industry in recent months, we expect a more balanced environment going forward, particularly as stakeholders absorb the full implications of the GST changes. Our own approach remains grounded in long-term sustainability and customer value.

The annuity segment, meanwhile, continued its strong momentum, delivering 16% growth in overall new business premium.

Retail protection grew 27% YoY, outpacing overall company growth. Our newly launched Click 2 Protect Supreme combines comprehensive life, illness, and disability protection with flexible payout options and value-added features like Smart Exit and income boost. We are also seeing

early signs of improved demand post-GST changes, and are working on multiple initiatives to drive awareness and adoption of affordable protection. While it's early days, on retail protection, growth post GST changes was more than 50% in the month of September.

In credit protect, trends in the MFI segment showed signs of revival, with growth resuming in September. Other segments continued to see steady progress driven by improved attachment rates, wider coverage across lending partners and new partner additions.

Retail sum assured grew at a healthy double-digit rate, with a 26% CAGR over two years. We continue to maintain leadership in overall sum assured, underscoring our strength in protection-led propositions.

Financial and Operating Metrics:

New business margin in H1 prior to factoring the GST impact was 25%. Post GST, new business margin for H1 was broadly at FY25 levels, at 24.5%. This translates to VNB growth of 12% pre-GST and reported growth of 10% on YoY basis and a 2-year CAGR of 14% for H1FY26. New business margin in H1 was impacted, as expected, by the withdrawal of input tax credit under the revised GST regime. Around 80% of the business in September was issued post 21st September. This, along with the effect of surrender regulation changes from previous year also weighed on margins vs the previous year. The margin impact was partially offset by higher share of protection and improvement in inherent product margins.

We are actively implementing a series of measures to neutralize the GST-related impact on a run-rate basis over the next 2-3 quarters. We expect to see restoration of a more normalized VNB growth next year i.e. FY27, led primarily by top line expansion. In our view, the GST reform is a momentous, forward-looking change with the potential to structurally expand long-term demand and deepen life insurance penetration in India.

Profit after tax in H1, rose 9% YoY to ₹994 crore.

Embedded Value stood at ₹59,540 crore, with an operating RoEV of 15.8% on a rolling 12-month basis. The solvency ratio was at 175%, reflecting a combination of dividend payout, repayment of ₹600 crore subordinated debt in Q2, writing more protection business and the GST impact.

We plan to raise up to ₹750 crore in subordinated debt in one or more tranches in H2. The fund raise is expected to enhance solvency by around 7%.

We are pleased to share that our Assets Under Management (AUM), including that of our wholly owned subsidiary HDFC Pension Fund Management, has crossed the ₹5 trillion milestone; a significant landmark in our 25-year journey.

Distribution Highlights:

All channels recorded healthy growth during the period. Our counter share within HDFC Bank remained stable, while partnerships with other banks also showed healthy expansion.

The proprietary channel achieved strong double-digit growth in Q2. Agency channel has delivered a robust two-year CAGR of nearly 20% in H1FY26, maintaining a healthy double-digit protection mix and driving profitable growth. Agent additions remained healthy, with over 50,000 new agents onboarded on a gross basis in H1 FY26, of which 80% were from Tier 2 and 3 geographies. Our focus continues to be on enhancing profitability at the branch level alongside broader agent activation initiatives.

Other updates:

Our Indian subsidiary, HDFC Pension Fund Management, continued to deliver robust performance, registering a 37% year-on-year growth in assets under management and maintaining its leadership with over 43% market share. Its AUM nearly reached Rs 1.40 lakh crore as on 30 September 2025.

Our people remain central to our sustained success. We continue to invest in nurturing a supportive, inclusive and empowering workplace - one that fosters innovation, collaboration and a strong sense of belonging. We are proud to be recognised for our employee-centric practices:

- Named among the Best Companies for Women in India 2024 (BFSI)
- Honoured as an Exemplar of Inclusion in the Most Inclusive Companies Index 2025, by Avtar & Seramount - for the second consecutive year

These accolades reflect the culture we are building, one where every individual can thrive.

To sum up:

As the external environment evolves, we remain confident of the long-term growth potential of life insurance in India. The recent GST reform, while necessitating some recalibration for industry stakeholders, is a structurally positive step - it makes life insurance products more affordable for customers. We remain optimistic about our growth trajectory for H2, with sustained demand across segments and improving consumer sentiment. With a resilient business model, a trusted brand, and a history of disciplined growth through cycles, HDFC Life is well-positioned to grow ahead of the industry.

As we mark 25 years of serving Indian households, our commitment to providing financial protection and building lasting value is stronger than ever. We thank you for your continued trust and support.

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

Moderator: We will now begin the question-and-answer session. The first question comes from the line of Avinash Singh with Emkay Global.

Avinash Singh: Two questions, first one is on capital. If I see sequentially, solvency ratio has dropped 17 percentage points, I would think nearly 6-7 percentage point impact would come from some retirement of your sub-debt, some part of it will be growth and partly, it could also be due to yield curve movement-led MTM adjustments on some of the hedging positions. Are there any other elements here? And more importantly, is this the capital level comfortable to support your growth? Do you have any plan to raise sub-debt or any other way to augment the capital? So, that is on capital and growth.

Second, on GST and margin, if I were to just glance through the sensitivity given, i.e., how VNB changes if there is a 10% increase in acquisition cost and maintenance, that's on a ceteris paribus basis. But the impact, looks meaningful, 18% cost increase on nearly 50-60% of costs that are non-salary related. So, there is a reasonable amount of acquisition cost and maintenance going up.

So, that is where my question is, as you pointed out that, over the next two-three quarters, you will be doing the adjustments to overcome this impact. So, is there a possible way out unless, the distributor also shares the burden? Because, if this burden is to be absorbed only by product changes or to be absorbed by you, it looks a bit on the higher side. So, are distributors going to part of this burden sharing? Will they sort of share some bit of this load as well?

Vibha Padalkar: So, I will take the second question first, Avinash. On the distributors, a quick conversation. See, it is not only the distributor. It is four or five things that we will do to neutralize it. And we have to be equitable between different stakeholders to be able to do it.

You have mentioned distributors, I think, given changed economics, some of that will certainly happen. We have demonstrated that with surrender charges also. At the same time, we will be pragmatic about it.

There will also be conversations with all our vendors, because only around 50% of the input tax issue is due to commissions. There are others like outsourcing costs, technology costs, and so on. And we will have these conversations with those vendors also.

Then we also have a focus, along with the distributors, not only about commercials, but also on what product mix can we jointly focus on. Even more so than what we were doing, perhaps before GST. So, that is an uplift in terms of unit linked with higher levels of mortality, riders, longer-term par. Every product has some further that we can extract on margin. So, that also will happen.

We will also look at new products. Is there something that is topical, variable annuity, for example. So, there might be some new-to-market products that can also get us that fillip.

And the last point is overall growth, because what we are missing in all of this is that growth is expected to come in a big way. We have already seen 50%+ growth in the month of September on retail term. As we start evangelizing the monumental impact of GST exemption to the customer, hopefully even in other parts of our business, we start seeing that kind of uptick.

So, obviously we can't get into each of the specifics because these are all inter-say conversations, but all of this is something that we have already started working on and many of these things we already are done and dusted with.

Niraj Shah:

As far as solvency is concerned, the starting position was 192% in June, you mentioned a couple of elements. There are a couple of others which we would like to highlight. Starting with the dividend payout that we had done earlier in the year, that has about a 4.5% impact. Subordinated debt, we retired, about Rs. 600 crores, so that has around a 6% impact.

The GST impact, we have articulated about 150 basis points impact on solvency. And as far as the rest of it is concerned, it is a function of higher growth on the longer-term individual protection products. That has caused this, as well as the new business strain is embedded into this number.

So, historically, if you look at our solvency levels, they have been in the 180%-185% band. We are reasonably comfortable running at that level. We do plan to raise about Rs. 750 crores of subordinated debt in this quarter. So, that should kind of get us to the levels that we are reasonably comfortable with. And as we know that this is a fairly conservative solvency regime and as we graduate to the risk-based capital solvency regime over the next 12 to 18 months, I think the solvency position will appear to be a lot more robust than what it appears at this level. While the regulatory requirement is 150%, we believe 170%-185% is a fairly good number to operate with.

To your earlier point also on the sensitivities that you referred to on acquisition costs, I think the numbers all kind of tie-in. We have talked about 0.5% impact for half year. That is basically, it is about 15% of the period's business. So, you could actually take a gross impact of around 3% for the year. That is what we basically have indicated with our disclosures. And if you were to

tie in the acquisition cost sensitivities, given what Vibha spoke about, not all the costs are impacted from an input tax credit perspective.

So, keeping in mind the composition of our business in individual and group, as well as some of the acquisition costs not having got impacted at all, it kind of ties in with the impact that we are talking about on an annualized basis of 3% with a 10% increase in acquisition costs. So, that is broadly our thought process around this number.

Moderator: The next question comes from the line of MW Kim with J.P. Morgan.

MW Kim: I have two questions. The first question is about the business growth opportunities in Tier-2 and Tier-3 cities. Following the GST tax removal, the insurance products have become more affordable to the public, and the company has been an early mover in developing the business in Tier-2 and Tier-3 cities. With growing brand awareness and initial success in these regions, what is the company's target for the sales contribution from those regions over the next five years? So, I just want you to quantify on this impact.

Next question is about the asset liability management. We have observed that the company's embedded value and new business value margin sensitivity to the interest rate movement has decreased over the past six months. So, given the current macro volatility, could you elaborate on whether this reduced sensitivity has come at a higher cost or if it remains manageable through the asset management solutions? Additionally, is the bond market sufficiently developed to serve as an effective hedging tool for your asset liability management needs?

Vibha Padalkar: On the first question, Tier-2 and 3 is about two-thirds to 70%, it is somewhere in that range on an APE basis. On a number of policies, it is slightly higher. We expect it to continue similarly because if we were to look at the underlying growth rates, while Tier-2 and 3 is slightly at a higher clip, my ticket sizes are a little bit lesser. So, that is how I think we will see it panning out over the five-year time horizon.

Vineet Arora: I think you also asked about impact of GST on this mix. So, clearly, we have seen a lot of traction happening because of GST, more so in our term business. And we do expect that trend to continue, though it will be normalized from the kind of increase that we saw towards the end of September. We do believe it will get normalized as the things become more business as usual. But definitely in a product like protection, in which the GST impact is quite large and very visible, we expect that to contribute to this continued growth of business.

Niraj Shah: To your second point in terms of asset liability management, like you rightly mentioned, the sensitivities have been fairly range-bound and maybe even going down in the recent periods. It is basically a consequence of a couple of things.

One is our hedging approach hasn't really changed too much. It has been broad-based in terms of duration-matching single premium products and cash flow-matching regular premium guaranteed products through a combination of external and internal instruments. So, that hasn't really changed too much in the past five to six years.

What has happened is that, like you alluded to in terms of, is it coming at a higher cost? Not necessarily. The reason for that is that as interest rates move, we alter our pricing and the cost of hedging is an intrinsic part of that pricing decision as well. So, it is not something that causes an additional dent to any of our economic metrics.

Also, the broad-basing this hedging approach allows us to decide between each of these instruments from different points in time depending on how the economic aspect of a forward-rate agreement works from time to time. So, I think that is broadly how things have been.

Eshwari Murugan:

Just to add to that, the sensitivity captures the impact of the interest rate movements on the shareholder assets and the assets with the policyholders which are over and above the best-estimate liabilities because on a statutory basis, we are required to hold higher assets and depending upon where these assets are invested and shape as well as the level of the yield curve, the sensitivity will be slightly different.

But as Niraj mentioned, it's always been range bound and very important to note that in an interest rate down scenario, our values are going to be higher which is what we primarily look at when we are hedging or matching our liabilities under the non-par guaranteed products.

So, the interest rate up is an adverse impact on EV and NBM. That is because the assets are invested in bonds and when the interest rates go up, the value of the bonds reduces. So, only the excess assets are exposed to the risk. All the policyholder liabilities, they are perfectly matched by cash flow matching or by duration matching as mentioned in our Slide 17* of investor presentation.

**Slide 23, incorrectly mentioned as slide 17 in the call*

Moderator:

The next question comes from the line of Shreya Shivani with Nomura.

Shreya Shivani:

Both my questions are around the GST only. Can you help me understand which products get impacted the most because of the GST, in descending order? So, you know, protection, ULIP, non-par, par, whatever it is.

Second is, I wanted the clarity on, if you do nothing, how much of a VNB margin hit on an annualized basis comes for you? And how much time should we build in for expecting that all the negotiations, etc., would get completed?

Just one data keeping question. In your VNB walk, can you explain what is that impact of delay in pricing, that first bit in that chart?

- Niraj Shah:** We will just start with the last bit on the VNB walk. The starting position on a reported basis was 24.6%. And if you recollect in the previous quarters, there was a point in time when we had articulated the gap in margin due to lag in repricing. That is what we wanted to just restate here to basically say that once you neutralize that, the margin would have been 25% at the beginning of the period and end of the period is 24.5%. But on a reported basis, it is 24.6% to 24.5%.
- Vibha Padalkar:** So, just to interject here, we didn't want to start off with 24.6% is a limited point. We wanted to say that last year was, should have been 25.0% in H1.
- Shreya Shivani:** Yes, I remember you didn't reprice the products.
- Vibha Padalkar:** Yes, which is why we are saying that H1 margin last year was higher. So, actually the starting point is higher.
- Niraj Shah:** Second is you asked for the annualized impact. I just spoke about it a while back where we said that 0.9% for the quarter or 0.5% for the half year basically is representative about say one sixth of the business. So annualized basis, you would expect a gross impact of about 3%, which ties in with the earlier question around acquisition expense sensitivity.
- So, that is on a gross basis. Of course, that is not something that we would want to maintain or stay with. So, our objective is to try and neutralize that over the next couple of quarters. On a run rate basis, we would be very close to where we want to be by end of the year. So, that is something that we would endeavor.
- Lastly, in terms of impact of different product segments, I think at least from our perspective, given the market dynamics that we operate in, the biggest impact for us is on unit-linked products. And the rest of the products are in some sense fairly benign compared to the impact that we have on unit-linked products given the cap on charges. And that is something that we will try and solve for compared to some of the other business lines.
- Shreya Shivani:** Just to follow up, you said by Quarter 4 end, probably we would be closer to a more normalized VNB because we would have neutralized the impact, through all the negotiations that we are doing, right. That is what you mentioned?
- Niraj Shah:** Yes. So, FY 27, we would expect a fully normalized delivery. End of this year and beginning of next year is when the levels would be very close to where we would like them to be.
- Vibha Padalkar:** So, while we have set two to three quarters, we will try and wrap this up in two quarters.

- Moderator:** The next question is in the line of Prayesh Jain with Motilal Oswal.
- Prayesh Jain:** Just extending the previous question on GST trend, you said gross impact is 3%. Now that obviously doesn't factor in the growth that can come in from this, right? So, if you look at the second half, even if you take the gross impact, it is about 3%. But obviously, even if you don't make any alterations to products or to commissions, you still will have some net benefit coming in from the growth, right? Is there a fair way to look at it?
- Niraj Shah:** Yes, you are right. It is just that we will again take you back to what we discussed at the beginning of the year. If you look at a VNB walk for quarter one as well as for H1, you do see a negative on the fixed cost absorption. Now that is because we are, like we have discussed in the past, capacitized for 16% to 18% growth. But currently we are, while growing faster than the sector, we are still at 10%.
- So, we do expect some of this to kind of linger in the second half as well. We do hope to close the gap but we expect this to be a drag still. So, while H2 is likely to be on a higher growth compared to H1, there could still be some lag there. But we will see where we end, given how things are right now.
- Prayesh Jain:** The second question is on the non-par side. While you mentioned that the ULIP demand has been strong, but is this reduction in non-par is a strategy also, given that the competitive intensity has been high? Because we have seen with some other players the non-par share has been going up and there has been a decently strong demand on the ground for non-par.
- So, is there a strategy wherein you are letting go of the business given the competitive intensity? And how do you kind of see this panning out, from where we are today in the first half, do you see the second half could be significantly higher? How should we think about this?
- Niraj Shah:** Yes, so I think we do expect some pickup in non-par to happen in the second half. And everything that you mentioned is right. We do see some aggression in pricing, which we try and stay away from. We obviously will try and continue to innovate on the product front to try and bring more relevant and interesting propositions to customers.
- While we do that, in our case, till last year, the product mix was in the 30-odd percent range. It has come off from there. I think for some of the peers that you are referring to, probably they started on a much lower base compared to where we did. So, I think that is also something to consider.
- Having said that, it is definitely a category that we expect to pick up in the second half from a demand perspective, especially given the way the interest rates have moved in the last three-odd months. It just makes the category more attractive.

- Moderator:** The next question comes from the line of Madhukar Ladha with Nuvama Wealth Management.
- Madhukar Ladha:** So just to re-emphasize, if you don't do anything, there will be a 300-basis point impact because of GST, that will partly get offset with volume growth. However, fixed cost absorption may still be a little bit negative until the end of the year. So, that drag may still continue as far as the margins are concerned. Is that the right understanding?
- Vibha Padalkar:** Yes, so I just want to interject. Before all this GST happened on 3rd of September, what we had alluded to is that last year FY 25, we had ended at 25.6%. And we said that margins will be more or less range bound and VNB growth will be in line with top line growth because of investments in two areas that we had talked about. So, that was the starting point.
- Now GST impact is there, we have called it out. And we are saying that we will end this year, over the next two quarters, neutralizing that impact. So, intrinsically, when we have said that we are going to hold the margins, also this negative impact is due to lower growth. So, we are capacitized to grow at about 16%-18%, but we said growth is in the early teens, and hence this is the carrying cost.
- So, nothing changes on that front. Unless, because of GST in the second half, overall growth starts seeing a material uptick. We are seeing that in protection. It is early days, but if that were to come in sooner rather than later even on some elements of savings, then yes, that differential should go down fairly rapidly. But we are not factoring it as of now and will watch this space very closely.
- Madhukar Ladha:** I also see that that actually if you see your product mix that's moved more towards Par and ULIP, still the change in business profile is resulting into a positive impact on the margins. So, what exactly are we doing over here? And you had mentioned that we still have further levers on this count. So, I wanted to get a sense of, how much further margin improvement can come as a result of this and over, the next 6-odd months, what sort of driver could that be?
- And second, on persistency, 13th and 37th months, we are seeing some dip in persistency. So, what would be the reason for that?
- Niraj Shah:** To your first point in terms of the levers as well as the product mix implication on margins. So, if you were to just look at from the broad categories' perspective, protection has grown at 27%, which is almost 3x that of the overall company growth. That obviously has played a significant role in terms of improving the margin profile from a product mix perspective.
- Annuity has grown at about 16%. So, I think that also is a fairly significant contributor to that. Par mix has gone up, which is a little lower than company average margins, but I think it is not really creating any dent.

The biggest change that has happened is on the unit-linked front, where about one-fourth of the business that we now do is on higher sum assured. And that is something that absolutely meaningfully alters the margin profile of this product category for us. And that has actually more than made up for some of the product mix impact that you would impute from a unit-linked mix going up and non-par going down. It's more than got neutralized by this factor, apart from the protection growth and the annuity growth.

In addition to this, the flip side of non-par mix going down is basically pricing discipline, which adds to the inherent margin of the product. Of course, that's got helped with the way the interest rates have moved as well. So, all of these things have got the product profile to improve in spite of the product mix appearing the way it is.

Vineet Arora:

I will just add one point here. I think you also spoke about what is the further runway for this margin increase. Now, you know, one of the parameters that we are looking at and when we are talking to distribution partners is also to enhance the contribution of this high sum assured and higher margin ULIP to compensate for the entire GST impact. And as that discussion goes forward and we are closing certain counters with that kind of discussion, we do expect mix of higher sum assured ULIP to even go up further. So, the mix of ULIP between the normal ULIP and the higher sum assured ULIP will also alter.

Vibha Padalkar:

Another point is that, we have been investing and we have talked about it in our agency channel and growth for the quarter has been materially higher than overall company level growth. And margins from agency channel are comfortably also higher because of better product mix. So, just as that, even apart from product mix, even as channel mix continues to move in favor of agency channel, some of that uplift should also come over the next 6-9 months.

Niraj Shah:

On persistency, I think, just the headline number impact is really that of the mix shift in terms of ticket size. That is really the biggest delta between what you see on the 13th month at this point of time, apart from the mix shift that we have spoken about in terms of geographies. So, that is something that we are now building into our business model and we will work towards improving on that as we go forward.

Moderator:

The next question comes from the line of Sanketh Godha with Avendus Spark.

Sanketh Godha:

So, my first question, if you want to deliver say 15%-16% growth for the full year, the back calculated growth for second half comes to around 19-20% for you to deliver. So, just wanted to understand that the 19-20% growth, how confident you are to deliver in second half so that the 60-bps negative impact of fixed cost absorption can be fully neutralized? So, just wanted to understand the growth color there, given you might be going through a kind of disruption phase when you are negotiating commissions with the distributors. So, that is point number one.

And the second thing I want to check is that your Banca channel growth seems to be flat for first half year-on-year. Bulk of the business comes from HDFC Bank. So, is it fair to say that the market share gain story largely played out till last year? Now, even to that extent, bank is still struggling to contribute anything to growth because the number of policies or premium in general is not growing in that channel. And if it is the case, when you see the revival in the particular channel to happen?

One more thing if I can add. See, the yield curve benefit, I believe, will play out in second half. So, is it fair to say that the non-par margins might look little better in second half compared to first half? And therefore, that could be a negating factor to all the GST-related issues on the margins.

Vibha Padalkar:

So, on the first point on growth, Sanketh, I don't think we have alluded to the numbers that you talked about, 16%-19% kind of growth. We have talked about early teens because we are coming off a big base. And also, like we explained in Quarter 1, we can't be decoupled with whatever is happening in the lending environment, in bank growth, overall system-led growth in the BFSI sector and even otherwise. So, we are holding on to what we said, which is early teens growth. And we are on track. We have also said that we will grow faster than the sector and that we have comfortably done with market share expansion, like I mentioned in the call.

So, I if your backward calculation says that we were to eliminate the drag due to lower fixed cost absorption, then yes, we will deliver the kind of growth you mentioned. And that is exactly what we are saying, that because of the overall system-led, or macro environment-led drag, we have under-absorption of cost.

So, we are retaining our outlook of what we said in first quarter and not factoring in any upside that could come through because of GST. We have factored in whatever downside, we have explained that. And there can only be an upside due to higher volume. That is on point number one.

On point number two on HDFC Bank, we have more or less retained our counter share. See, like I mentioned in the past also, it is not difficult at all, it is our parent. For us to get to 70% or whatever that 'X' percentage share. But really what we are focused on is improving our margins while retaining the current share. And of course, down the line, we are getting more and more nuanced. Now, HDFC Bank also has grown in line with company-level growth. So, it is not really a drag. And on a two-year CAGR, it is a very respectable 20% growth.

Also, we are very selective in terms of what parts of what the bank sells we want to have a share in. And channel has delivered 40% growth on retail protection. So, we are getting more and more nuanced as to what do we want to sell rather than being agnostic between say Rs. 100 of unit-linked and Rs. 100 of protection just to show a higher wallet share. So, that is as far as the HDFC Bank relationship is concerned.

- Eshwari Murugan:** On non-par, yes, you are right. The margins will be better given the increase in the yields at the longer end. So, that is a right conclusion.
- Sanketh Godha:** So, sorry, Eshwari, if you can say that if the yield curve holds up at the current level, maybe any positive rub-off you will have on margin delta because of the current shape of the curve, if it holds up for the entire half, second half?
- Eshwari Murugan:** Yes, if it holds up, we will have a margin delta, but then we just have to look at balancing it against competitive intensity.
- Vineet Arora:** Exactly. So, yes, if everything else remains the same and that is the only factor then margins will improve. But however, if there is competitive pressure to pass this on, then margins would come back to normal.
- Vibha Padalkar:** And also, some of the negating of the GST, you know, so many things like this will be in fray. But on a standalone basis, what you are saying is technically correct.
- Moderator:** The next question is from the line of Dipanjan Ghosh from Citi.
- Dipanjan Ghosh:** Good evening, everyone. So, just two questions from my side. One, in terms of your non-H Bank partnerships on the Banca side, can you give some color on how your counter share has been changing over the past 12 to 24 months? And just one small question in terms of timelines for the launch of the variable annuity product.
- Vineet Arora:** So, on the banks beyond HDFC Bank, we have seen a lower growth for the first 6 months. I would say first quarter we had a lower counter share in few of these banks, but towards the second quarter we have been able to recoup our counter share back to what it used to be. And as you know things are panning out, we are now pretty confident of retaining our counter share in these banks.
- Vibha Padalkar:** And also, some of these banks added more partners. So, it was not that we per se lost counter share. We just had more partners in the open architecture construct, but it has settled down.
- Vineet Arora:** Yes, I think it will settle down now. And second is, if you also look at our two-year CAGR on these bank counters, it is a healthy 22%.
- Niraj Shah:** On variable annuity, we are in conversations with the regulator. Hopefully, we should be able to launch it in the last quarter of this year.
- Moderator:** The next question comes from the line of Nischint Chawathe with Kotak Institutional Equities.

Nischint Chawathe: This is essentially on solvency. How much leeway do we really have beyond the proposed issuance for further capital raise? I mean, if growth in the protection business continues to remain high and especially after getting some tailwinds from GST exemption, to what extent can we support growth and is there going to be any need to raise equity? So, what are the tools available out there? t

The second is essentially if I look at your P&L statement, there is a reasonably sharp year-on-year decline in policyholders' surplus. So, what is driving this? And just a tiny one over there is your single premium commission rate has again significantly increased on a year-on-year basis.

Niraj Shah: So, on solvency, Nischint, I think, like we have maintained I think level close to 180-odd percent is reasonably comfortable for us to continue growing. At 175%, adding sub-debt of Rs. 750 Cr will take us to that level. Regulatory requirement is 150%. So, I think with this level of growth and product mix, I think we have a significant runway we can go a couple of years and not require equity capital.

Having said that, you are aware that risk-based capital regime is likely to get implemented in this period which will significantly alter the solvency profile of not just our company but the industry in a positive way. So, I think capital is unlikely to be any constraint for growth unless the growth trajectory is dramatically different and the product mix changes a lot faster than we think at this point in time. So, should not be an issue from that perspective.

On policyholder surplus, impact is largely a function of how the segments have done. On the participating front, it's been fairly stable. As far as the non-par is concerned, I think the lower business has actually improved the position there on the individual business. Credit life, which sits in the non-par segment, has grown at 15% in Q2. So, that will cause a strain in the shorter term. That is something that is reflecting here.

Similarly, individual protection has grown at 27%. So, that also causes a strain in the P&L. But that is something that will obviously be accretive from an economic perspective, but it will cause strain in this artificial P&L construct in which we don't have a matching concept. Similarly, the artificial solvency construct in which the requirements are not as per the risk in the product.

Nischint Chawathe: And just single premium commissions increase.

Vineet Arora: So, like Vibha also spoke in her opening remarks, we did see good growth coming in our CP business and we have also seen some green shoots in the last month on the MFI part of the CP business. So, that has shown us some good growth and also the growth in annuity has been healthy. Both of these have contributed to that single premium commission increase.

Moderator: The next question is from the line of Nidhesh Jain with Investec.

- Nidhesh Jain:** My question is on distribution mix. Within distribution, we have seen very strong growth in the broker channel. So, what is driving that and how sustainable is the current run rate?
- Vineet Arora:** So, our growth in the broker channel has been due to maintaining our share in some of the broker shops as well as a large growth in the protection business happening through some of the counters. So, these two things have been contributing to our growth in the broker channel. And we do believe it is a very sustainable growth. Even the product mix at the broker channel is reasonably healthy and giving us good margins, better than company level margins. So, that is a sustainable business for us to continue.
- Nidhesh Jain:** So, the share of broker channel has now become around, I think, 9% of APE. So, you think that this share you will be able to sustain going forward?
- Vineet Arora:** Yes.
- Moderator:** The next question is from the line of Vinod Rajamani with Nirmal Bang. Please go ahead.
- Vinod Rajamani:** So, you spoke about changes that you can make on the product, whether it is a tenure extension, attaching riders, higher sum assured and so on. Also, some channel repricing. But just in terms of rider attachment, any data that you can share? How many products currently do you have, in which you have a rider attached? And what is the plan going forward as far as the rider attachment is concerned?
- The second question I had was on the group side. The way I see it, group can be a natural hedge in terms of this input tax credit. So, is there something we can do on the group side to kind of mitigate some of the impact of this GST?
- Vineet Arora:** So, like we discussed, that our inherent margin on the products have gone up. And largely, it is because of adding elements of riders, a higher sum assured, and a combination of all of these factors, which helped us in taking the inherent margin up. Also, the factor that more longer-term products are being sold now, as compared to, let's say, earlier. And you can see that our sum assured growth has been healthy. And these are the ones which has really contributed to inherent margins going up.
- Vinod Rajamani:** Any data around how many riders are attached, like, to your products? And do you have a target in mind and so on?
- Vineet Arora:** So, I think how many riders are attached is not really a straightforward answer because there could be multiple riders or different kind of products which have different abilities for riders. And some of the products have inbuilt riders, some of them have inbuilt protection, higher protection. So, there is no straight answer for saying that how many riders are attached. But like we said, that to enhance our margins, we do focus on higher embedded protection in savings.

And the protection could come through higher sum assured or through riders or any of these elements.

Vineet Arora: So, the group is excluded from GST and it stays that way. There is no other implication on the group from GST perspective.

Vinod Rajamani: No, so my question was around since it acts as a kind of hedge, is there any strategy there to kind of, you know, to mitigate the impact of this GST change? So, what are we planning in the remainder of the year?

Vineet Arora: So, there is no mitigation for that. Group business itself is growing at a healthy pace and that business is, let's say, immune from this GST change.

Moderator: The next question is from the line of Neeraj Toshniwal with UBS.

Neeraj Toshniwal: Just wanted to recheck on the guidance. Vibha kind of mentioned that the starting point we were probably guiding for a flattish margin by the year end. Adjusting the impact for GST, if we are able to kind of pass on, are we still sticking to that particular guidance?

And second is on the like-to-like basis, obviously, the product level margin seems to have increased significantly because if I look at the product mix, has it been only driven by ULIP, higher sum assured, particularly in ULIP, or it is across the board in all the product categories you are seeing margin uptick or the major delta is coming only from ULIP?

Vibha Padalkar: So, we are seeing an uptick throughout. And there is something or the other in terms of features that we do try and be very nuanced upon and also work very closely with the distributors and construct products that will be meaningful to customers. So, we keep finding ways and regulations also change and so on. So, it is fairly dynamic. So, yes, ex-GST, we are not changing guidance. I mean, we don't like giving per se guidance given so much of volatility. But, yes, whatever we had mentioned in the first quarter, that holds and not taking into account any upside due to positive impacts of GST.

Neeraj Toshniwal: And on the yield curve movement, are we looking to readjust our IRRs basis upwards moving curve or we are not looking to fully pass on or here also it will be driven by competitive dynamics at play? How should one think about the growth of non-par saving in that construct in the coming quarters?

Niraj Shah: We launched this category, I think, about 6.5 years back. We keep repricing, I think, we have repriced upwards 20 times in this period in line with the way interest rates move. And, of course, like we discussed on the call, comparative dynamics also play a role there. And so, all of these things will, I mean, which function on a business as usual (BAU) basis, we will see what is feasible given the interest rate environment, what we are able to earn, as well as where the

competitive pressures are in the categories. So, all of that will continue on a BAU basis. Nothing different that we will do in this period.

Moderator:

The next question comes from the line of Gaurav Sharma with HSBC.

Gaurav Sharma:

So, first question is on the product mix of the agency channel. I am seeing the sharp decline in the contribution of non-par savings from 40% last year to 21%. So, what explains this? And going forward, like, can we see the shift in the product mix that will support the margins also?

And second is on the GST cut, the changes in commission structure. So, just wanted to know that if changes are communicated to distributors, whether it will be the similar type of cuts for all the distributors or it will be aligned to product mix? Like, if a bank is doing more of ULIP, so the cuts will be on the higher side.

Vibha Padalkar:

See, on the first point on non-par, I think I explained also in the first quarter, whether non-par pricing or underwriting in term, pricing in term, they are all similar. And we will continue to build business at the pricing and underwriting, in terms of quality, both on mortality and persistency, the way we think will be the right level. And we will continue to withdraw a little bit when it gets somewhat irrational and we will, of course, regain lost ground when we think there is a little bit more rationality.

I think given GST, some of the rational behavior hopefully should percolate down. We have certainly seen that in term business. And we have really grown well on retail term, almost 27%, and sum assured and so on. So, we will replicate the same on non-par. Our overall growth in non-par in H2 should be higher than in H1.

As regards all these conversations with our partners, of course, these are all one-on-one conversations. And there are so many things in the mix. Nothing is one size fits all. And it will be just inter-say between us and them. **Moderator:** The next question comes from the line of Mohit Mangal with Centrum.

Mohit Mangal:

My first question is that, we started Project Inspire about a couple of years back. So, will we continue to invest in that in the future like we did in, like, Financial Year '24 and Financial Year '25? Point number two, we saw a marginal decline in individual policies sold. So, do you see an uptake in H2?

Vineet Arora:

So, I will take your first question, which is about Project Inspire. So, we have been on that road now for more than 12 months of groundwork and maybe 18 months including design. We have seen the first few outputs coming. The employees internally, operational teams have started using that platform also for, let's say, our group business first. We will continue to do that investment, take it to logical milestones of rolling out new journeys and everything else over the next 12 to 18 months.

- Vineet Arora:** On the NOP side, we have consciously done a reduction of NOPs or new business policies from our lower ticket size segment where we had lower persistency etc. So, that is a conscious call. All other segments, which is greater than, let's say, Rs 50,000, have been growing healthy on the NOPs. And we do expect this to play out in the next 6 months as well.
- Moderator:** This is our last question. It is from the line of Harshal with Asian Market Securities.
- Harshal:** Two questions from my end. So, firstly on new business strain. So, this quarter, we have seen a very sharp increase in the new business strain, which has led to decline in underwriting profits. So, do we expect that trend to continue in the near future also?
- And secondly, in terms of renegotiation with distributors. So, how do we see that playing across channels, particularly if you can give me some color on the online channels?
- Eshwari Murugan:** The new business strain has grown higher than the APE growth. That is mainly because of the GST impact on the business that was written in the last eight days, which contributed to about 15% of the business in H1. Since this business was written without any changes in the commission or any other features, the strain is a little higher. But going forward, we expect that the strain will reduce because of all the factors that we discussed on how to mitigate the impact of the GST changes. Without the impact, the NB strain would have grown at a similar rate to the business growth.
- Vineet Arora:** The online channels largely contribute a lot of protection business to us. And we have seen a clear uptick in the protection business from all the online channels as well as from the other channels. In fact, since the GST change, the increase in the protection business and the interest of the customers also in the protection business has been quite healthy. I think we need to monitor this for the next maybe 60 days to see where does this normalize.
- Moderator:** I would now like to hand the conference over to Ms. Vibha Padalkar for closing comments.
- Vibha Padalkar:** Thank you for joining us today. Should you have any follow-up questions, please feel free to contact our Investor Relations team. Wishing you all a happy festive season. Good night.