# HDFC Life Insurance Company Limited (Revised)
September 10, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Subordinated Debt | 2,000.00 | CARE AAA; Stable | Assigned |

Details of instruments/facilities in Annexure-1.

CARE Ratings Limited (CARE Ratings) has rated the aforesaid subordinate debt considering the regulatory conditions and in view of their sensitiveness to the company's solvency ratio and profitability due to the regulatory covenants during the long tenure of the instrument.

Interest payable on subordinate debt will be subject to the following:

• The solvency of the issuer remains as per regulatory stipulation

• Where the impact of such payment may result in net loss or increase the net loss, prior approval of the authority for such payment will be obtained.

Any delay in payment of interest / principal (as the case may be) following the invocation of covenants, would constitute an event of default as per CARE Ratings' definition of default and as such these instruments may exhibit sharper migration of the rating.

## Rationale and key rating drivers

The rating assigned to HDFC Life Insurance Company Limited (HDFC Life) derives strength from its strong parentage (HDFC Life is 50.37% held by HDFC Bank Limited [HBL] rated CARE AAA, Stable). The rating factors in the strategic importance of HDFC Life to the HDFC group, demonstrated track record of timely financial support, shared brand name and presence of HBL executives on HDFC Life's Board, ensuring effective managerial oversight. The rating further factors in HDFC Life's position as one of leading life insurers supported by strong distribution franchise, business growth & underwriting capabilities supporting healthy profitability, adequate solvency levels and strong liquidity buffers.

## Rating sensitivities: Factors likely to lead to rating actions

**Positive factors: Factors that could, individually or collectively lead to positive rating action/upgrade:**

- Not applicable

**Negative factors: Factors that could, individually or collectively lead to negative rating action/downgrade:**

- Material dilution in the ownership by, expected support from, and strategic importance to HDFC Bank Ltd
- Deterioration in credit profile of HBL and or HDFC Life
- Solvency margins below 1.7 times on sustained basis
- Significant decline in market position on sustained basis

## Analytical approach:

Standalone along with factoring in the strength of the promoters; operational and financial linkages of HDFC Life with its promoter.

## Outlook: Stable

The Stable outlook reflects CARE Ratings Limited's (CARE Ratings') view that the company will continue to maintain its strong market position with continued growth momentum leading to maintained profitability and solvency levels.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

## Detailed description of key rating drivers:

### Key Rating Strengths

**Strong parentage and support**

HDFC Life is 50.37% held by HBL as of June 30, 2024. HDFC Bank is a domestic systemically important bank as well as largest private bank in India with advances base of ₹24,63,500 crore as of June 30, 2024. HBL's subsidiaries are engaged in providing a wide array of services in the financial services sector and operate in areas of non-banking financial services, insurance, asset management, broking and others. HDFC Life is a strategically important entity for HDFC Group providing access to life insurance business. This is evident through high degree of capital, managerial and business support that HDFC Life derives from its parent apart from shared brand name.

HDFC Life benefits from strong distribution franchise of HBL which has 8,851 branches pan India as of June 30, 2024, and banca business from HBL constituted ~50% of the individual annual premium equivalent (APE) of HDFC Life during FY24. HBL's counter share in HDFC Life's individual APE increased to ~63% during FY24 [P.Y.: 56%].

HDFC Life's board includes Mr. Keki Mistry (non-executive director of HDFC Bank) and Mr. Kaizad Bharucha (Deputy Managing Director, HDFC Bank); both of whom bring in strategic oversight, industry expertise, strong corporate governance, and efficient risk management practices on board**.** Further, the board has six independent directors and three executive directors. HDFC Life is led by Ms. Vibha Padalkar who is the MD & CEO of the company with around two decades of experience in insurance sector.

Going forward, CARE Ratings expects HBL to continue to maintain majority shareholding and provide need based support to HDFC Life as and when required.

**Adequate solvency levels**

HDFC Life has an adequate solvency position supported by strong internal accruals (3-year average return on net-worth [RONW[2]] of 10.39%). The last equity infusion was done by HDFC Limited. (HDFC Limited merged with HBL effective July 01, 2023) in FY23 aggregating to ₹2000 crore. The company reported a solvency ratio of 1.86 times as of June 30, 2024, [Mar-24: 1.87 times], against regulatory requirement of 1.5 times translating into excess liquidity surplus of ₹3,191 crore [Mar-24: ₹3,119 crore]. Further, company has a head room to raise ₹2,022 crore of subordinate debt as of June 30, 2024, which is expected to support company's solvency position and growth plans.

Going forward, CARE Ratings expects the solvency position of the company to be range bound at 1.7 times to 2.0 times.

**Strong market position as one of leading life insurers supported by robust distribution franchise**

HDFC Life is the second largest private life insurance company in India with a market share within private players of 19.29% in terms of new business premium during FY24 [PY.: 21.14%]. During FY24, individual and group businesses contributed to 87% and 13% respectively of total APE. The product mix of HDFC Life is diversified with PAR contributing 20% to total APE during FY24 [PY.: 23%], non-PAR savings contributing 26% [PY.: 38%], ULIP contributing 31% [PY.: 16%], protection (including group) contributing 13% [PY.: 13%], annuity (including group) contributing 6% [PY.: 6%] and group retrial contributing 3% [PY.: 3%]. HDFC Life's market position is supported by strong distribution franchise with 595 branches and more than 300 distribution partners, enabling it to source higher share of value accretive individual business. As on March 31, 2024, bancassurance channel comprised 65% of individual APE [P.Y: 56%], agency 18% [P.Y: 20%], brokers & others- 6% [P.Y.: 11%], and direct channel (including online) - 11% [P.Y.: 13%]. The increase in bancassurance share was led by increase in HDFC Bank's counter share to ~63% [PY.: ~56%]. Apart from HBL, company has tie-ups with other private and regional banks besides tie-ups with NBFCs,

[2] RONW = Profits after tax/ average tangible net-worth of current year and previous year

micro finance institutions, small finance banks and new age partners including ecommerce, telecom, auto, mutual funds and fintech companies.

Going forward, CARE Ratings expects HDFC Life to continue upholding its strong market position, supported by its robust distribution network and strong brand identity.

**Business growth and persistency supporting healthy profitability**

HDFC Life's new business premium (NBP) grew at 4-year compounded annual growth rate (CAGR) of 15% against overall sector growth of 10% to ₹29,631 crore during FY24 [PY.: ₹29,085 crore]. The healthy growth in NBP has led to growth in absolute VNB which grew by 4-year CAGR of 16% to ₹3,501 crore during FY24 [PY.: ₹3,674 crore] while margins have been largely range bound. The embedded value (EV) grew by 4-year CAGR of 23% to ₹47,468 crore as of March 31, 2024 [PY.: ₹39,527 crore] with a 4-year average operating ROEV of 18.1%.

VNB margins continued to remain healthy at 26.31% during FY24 [PY.: 27.60%] with a decline of 129 bps due to change in product mix (share of unit linked insurance premium [ULIP] increase to 31% of APE during FY24 against 16% during FY23) and low APE growth (due to one off business during FY23 of ₹1000 crore). The decrease in VNB margins further impacted operating ROEV which stood at 17.51% during FY24 [PY.: 19.69%]. Driven by continued healthy VNB margins, operating ROEV and continued robust underwriting practices including strong persistency ratio company's RONW for FY24 stood at 11.35% [PY.: 9.55%].

During Q1FY25, VNB margins continued to see decline to 25.05% [PY.: 26.20%] due to shift in product mix (increase in share of ULIP) and increase in surrender value. Consequently, operating ROEV stood at 15.50% [PY.: 16.00%] and annualised RONW stood at 13.75% [PY.: 11.61%].

HDFC Life's profitability is supported by robust underwriting practices and strong persistency levels across all cohorts as of June 30, 2024, with 13$^{th}$ month persistency of 88% [Mar-24: 87%], 25$^{th}$ month persistency of 79% [Mar-24: 79%], 37$^{th}$ month persistency of 74% [Mar-24: 73%], 49$^{th}$ month persistency of 70% [Mar-24: 70%] and 61$^{st}$ month persistency of 56% [Mar-24: 53%].

**Key Rating Weaknesses**

**Changing regulatory dynamics and competitive industry landscape**

Long-term growth prospects for Indian life insurance sector remains robust with low penetration of life insurance as a percentage of GDP in India supported by strong socio-economic growth drivers.

As Indian life insurance sector continues to evolve, the sector has been witnessing slew of regulatory changes some of which include expected introduction of composite licence, risk-based capital framework, entry of new players and the resultant changes in operating models/ technology. While these measures are expected to improve product proposition and thereby propel the Indian insurance industry towards greater efficiency and effectiveness leading towards the vision of Insurance for All by 2047; the same is expected to increase competition in the industry in the medium term.

**Liquidity**: Strong

HDFC Life has a strong liquidity profile; during FY24 as per the cashflow statement, the cash inflows (premiums received + income from investments) stood at ₹81,094 crore against claims payouts of ₹40,746 crore, total expense (opex + commission) of ₹10,548 crore and interest payment on subordinated debt of ₹69 crore. The company continues to have positive operating cashflows in the last three years.

Additionally, 79% of shareholder's investments amounting to ₹11,763 crore were invested in G-secs and AAA rated bonds as of March 31, 2024.

### Assumptions/Covenants

Not Applicable

### Environment, social, and governance (ESG) risks

HDFC Life is committed to upholding strong ESG principles throughout the business operations. The company prioritised conducting business with integrity and maintaining transparent governance practices. With an aim of focussing on responsible investment, it considers environmental, social, and governance factors while making investment decisions.

The company has a ESG governing body and environment and climate change policy in place. Initiatives of the company include endeavour to bring in carbon neutrality. The company prioritises building strong, trust-based relationships with it creating shared value by contributing to societal well-being while continuing with business growth. The company's CSR programs focus on education and livelihood, healthcare and sanitation, environmental sustainability, and financial literacy aiming at positive community impact.

### Applicable criteria

Definition of Default
Factoring Linkages Parent Sub JV Group
Rating Outlook and Rating Watch
Financial Ratios - Insurance Sector
Insurance Sector

### About the company and industry

### Industry classification

| Macroeconomic indicator | Sector | Industry | Basic industry |
|---|---|---|---|
| Financial Services | Financial Services | Insurance | Life Insurance |

HDFC Life Insurance Company Limited (HDFC Life) is among the leading private sector life Insurance companies in India which started its operations in year 2000. The company started as a joint venture between HDFC Limited and Abrdn (Mauritius Holdings) 2006 Limited [erstwhile Standard Life (Mauritius Holdings) 2006 Limited]. Abrdn (Mauritius Holdings) 2006 Limited sold its stake over the years with its last exist being in 2023. Post amalgamation of HDFC Limited and HDFC Bank, HDFC Life is 50.37% held by HDFC Bank as of June 30, 2024, followed by institutional investors, non-institutional investors and employee benefit trust holding 37.88%, 11.73% and 0.03% stake respectively.

HDFC Life offers wide banquet of products covering insurance need for protection, savings, investment, annuity and health.

The company has balanced approach towards product mix with each product category not being more than 25% to 33% of the APE within PAR, non-PAR savings and ULIP.

By virtue of its parentage HDFC Life has access to 8,851 branches of HDFC bank spread across India. Distribution mix of the company is diversified with more than 300 partners via bancassurance (65% of individual APE during FY24), agency channel (18%), brokers (6%) and direct (11%). The company has a pan India branch network of 595 branches as of June 30, 2024.

| Brief Financials (₹ crore) | FY22 (A) | FY23 (A) | FY24 (A) | Q1FY25 (UA) |
|---|---|---|---|---|
| Net Premium Earned | 45,396 | 56,764 | 61,959 | 12,510 |
| PAT | 1,208 | 1,360 | 1,569 | 497 |
| Tangible Net worth* (Including Fair value change) | 15,436 | 12,930 | 14,577 | 15,268 |
| Policy Liabilities | 1,04,343 | 1,43,270 | 1,75,349 | 1,82,127 |
| Solvency Ratio (times) | 1.76 | 2.03 | 1.87 | 1.86 |

A: Audited UA: Unaudited; Note: these are latest available financial results
*Adjusted to intangible assets and deferred tax assets

**Status of non-cooperation with previous CRA:**
Not applicable

**Any other information:**
Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated**: Annexure-4

**Lender details**: Annexure-5

## Annexure-1: Details of instruments/facilities

| Name of the Instrument | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned and Rating Outlook |
|---|---|---|---|---|---|---|
| Bonds-Subordinated Debt | Proposed | -- | -- | -- | 2000.00 | CARE AAA; Stable |

## Annexure-2: Rating history for last three years

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating History | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (₹ crore) | Rating | Date(s) and Rating(s) assigned in 2024-2025 | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 |
| 1 | Bonds-Subordinated Debt | LT | 2000.00 | CARE AAA; Stable | | | | |

LT: Long term; ST: Short term; LT/ST: Long term/Short term

## Annexure-3: Detailed explanation of covenants of rated instruments/facilities

Not applicable

## Annexure-4: Complexity level of instruments rated

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1 | Bonds-Subordinated Debt | Complex |

## Annexure-5: Lender details

| To view the lender wise details of bank facilities please click here |
|---|

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

## Contact Us

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**About us:**
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.



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