April 15, 2024

HDFC Life Insurance Company Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AAA (Stable); reaffirmed
Subordinated Debt Programme	950.00	950.00	[ICRA]AAA (Stable); reaffirmed
Total	**950.00**	**950.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in HDFC Life Insurance Company Limited's (HDFC Life) established market position as the second largest private life insurer with a market share of 10.4% in 11M FY2024 {10.5% in FY2023; in terms of individual annualised premium equivalent (APE)[1]}, a balanced product mix, diversified distribution network, and strong persistency supporting its profitability. The profitability remains healthy with average RoE[2] and RoEV[3] of 15.1% and 18.6%, respectively, in the last five years (FY2019-FY2023). The company's solvency profile, supported by healthy internal accruals, remained comfortable at 1.90 times as on December 31, 2023, compared to the regulatory requirement of 1.50 times.

The rating also considers HDFC Life's strong parentage with HDFC Bank ([ICRA]AAA (Stable)/[ICRA] A1+) holding a majority stake of 50.37% as on December 31, 2023. Following the amalgamation of erstwhile Housing Development Finance Corporation Ltd (e-HDFC) with HDFC Bank, HDFC Life became a subsidiary of HDFC Bank with effect from July 1, 2023. The rating considers the strategic importance of the company to the bank, its representation on the company's board of directors and the presence of a shared brand name, strengthening ICRA's belief that the bank will provide support as and when required. While HDFC Life does not have an exclusive distribution partnership with HDFC Bank, it has a strong counter share of ~62% in terms of the individual APE in the bank, which has increased after it became a subsidiary of the bank. Prior to merger e-HDFC also increased its stake in HDFC life to above 50% after regulatory approval received by HDFC Bank to hold more than 50% stake in HDFC Life.

In the current year while HDFC Life has maintained overall profitability, due to regulatory headwinds premium growth in the individual business was lower as compared to the previous years. The company's ability to grow the individual business will be a driver of its overall profitability.

The Stable outlook reflects HDFC Life's strong brand recall, diversified distribution network and balanced product mix, which enable it to maintain its market position. It also reflects the expectation that the company will receive support from HDFC Bank, if required, and will maintain its solvency level above the negative rating trigger.

Key rating drivers and their description

Credit strengths

Strong promoter profile – HDFC Bank held a 50.37% stake in HDFC Life as on December 31, 2023. Following the amalgamation of e-HDFC with and into HDFC Bank, the bank became the promoter of the company. HDFC Bank is a systemically important as well as the largest private sector bank in India. With a presence in banking, insurance, and asset management, the HDFC Group is an important part of the Indian financial services sector. HDFC Life benefits from the bank's strong brand recognition.

[1] APE is the sum of the annualised first year premiums on the regular premium policies and 10% of the single premiums

[2] Return on equity (RoE) = Return on equity is calculated based on profit after tax divided by closing equity for that period

[3] Return on embedded value = Embedded value operating profit/Opening embedded value

As on March 31, 2023, HDFC Bank had a robust distribution network of 7,821 branches spread across the country which enables HDFC Life to leverage the bancassurance channel to source business, with HDFC Life having ~62% wallet share of individual APE in HDFC Bank in 9M FY2024. HDFC Bank's majority stake, its representation on HDFC Life's board of directors and the presence of a shared brand name strengthen ICRA's belief that the bank will provide support to the company as and when required.

Leading market position with balanced product mix and diversified distribution network – HDFC Life is the second largest private life insurer with a market share of 10.4% in terms of individual APE and 8.0% in terms of the overall new business premium in 11M FY2024. The company has a balanced and diversified product mix with unit linked insurance plans (ULIPs) accounting for 26.1% of the individual new business premium (NBP) in 9M FY2024, followed by non-participating (non-par) at 23.0%, participating (par) at 20.9%, annuity at 25.9% and protection at 4.1%. Within group, the portfolio largely comprises group protection (61.5% of the group NBP; both credit life and group term) with a sizeable portion of the credit life business coming from HDFC Bank. The product mix is likely to remain diversified with the company looking at growth across segments.

The company's growth is supported by the diversified distribution network with bancassurance and corporate agents accounting for 53.4% of the individual NBP in 9M FY2024, followed by direct channel including online (24.6%), agency (16.7%), and brokers and others (5.2%). The share of the bancassurance channel increased in 9M FY2024, driven by the rise in HDFC Bank's wallet share to ~62% from 56% in the previous year. HDFC Life has a diversified distribution mix with over 300 partners, including traditional partners such as non-banking financial companies (NBFCs), microfinance institutions (MFIs) and small finance banks (SFBs) along with new ecosystem partners. The new ecosystem partners or alternative distribution channels include health, e-commerce, auto, telecom, mutual funds and fintech companies. HDFC Life operates through ~500 branches across the country and has better cross-selling and upselling opportunities after becoming a subsidiary of HDFC Bank.

Healthy profitability supports capitalisation – HDFC Life's absolute value of new business (VNB) grew strongly and stands at Rs.3,674 crore in FY2023 (Rs. 1,537 crore in FY2019), supported by the growth in the VNB margin as well as the APE. The embedded value (EV) increased to Rs. 45,173 crore as on December 31, 2023 (Rs. 18,301 crore as on March 31, 2019), with operating RoEV of ~16-20% in the last five years. The VNB margin remained healthy at 26.5% YoY in 9M FY2024 (26.5% in 9M FY2023) despite the shift in the product mix with the increase in the share of ULIP and the decline in the share of the higher margin non-par segment in individual business. The VNB margin was supported by the increase in protection and attachment of a higher amount of protection cover to the ULIP. Going forward, the improvement in the absolute VNB will largely depend on the growth in the APE.

HDFC Life's reported profitability has historically been healthy with a return on equity (RoE) of more than 15%. The profitability was, however, impacted in FY2022 with adjusted RoE (excluding shares issued to Exide Life) of 12.7% mainly due to the higher net Covid death claims of ~Rs. 818 crore. The annualised RoE, on a merged basis, moderated to 10.4% in FY2023 and 10.9% in 9M FY2024 because of the equity infusion of Rs. 2,000 crore and the increase in the share of the long-term savings and protection businesses, which have a higher reserving requirement in the initial years leading to higher new business strain. The 13th month and 61st month persistency ratio stood at 86.3% and 53.5%, respectively, in 9M FY2024 (87.5% and 52.3%, respectively in FY2023)[4].

The company's solvency profile was mainly supported by healthy internal accruals with no equity capital infusion (except through employee stock ownership plans – ESOPs) in the 11 years till FY2022. The capital infusion of Rs. 2,000 crore in FY2023 was to support the acquisition of Exide Life (which involved a cash payment of Rs. 726 crore) and build a cushion, thus improving the solvency to 2.03 times on a merged basis (compared to 1.76 times as on March 31, 2022). The solvency was comfortable at 1.90 times as on December 31, 2023 (compared to the regulatory requirement of 1.50 times). The company has additional headroom for raising subordinated debt of ~Rs. 2,018 crore as of December 31, 2023, which adds some financial flexibility. The profitability and solvency may, however, remain susceptible to changes in the actuarial assumptions, leading to changes in the reserving requirements.

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[4] *Persistency ratios are as per public disclosures*

Credit challenges

Ability to maintain NBP growth in individual segment – The company's individual NBP grew by 8% YoY in 11M FY2024 compared to the compound annual growth rate (CAGR) of 17% during FY2019 to FY2023 and was above the industry growth of 7%. The lower growth in FY2024 was largely on account of the headwinds faced by the industry due to the change in taxation, given the Budget announcement regarding taxation on returns from life policies with a premium of more than Rs. 5 lakh per annum applicable after March 2023. Further, the increased attractiveness of the new tax regime and the alternative options for guaranteed savings such as high bank fixed deposit (FD) rates pose challenges for growth in the individual business in the near term. With the VNB margin growth expected to remain limited, APE growth is likely to be the driver of the absolute VNB growth. ICRA, however, notes HDFC Life's diversified product mix and strong distribution network, which are likely to support its growth. As seen in FY2024, while growth in non-par was subdued, the company has seen shift in product mix towards ULIP led by the increased demand for equity asset allocation.

Environmental and social risks

Life insurance companies like HDFC Life typically invest in long-term debt securities and equity and have broadly diversified portfolios that include exposure to sectors affected by environmental risks. However, active portfolio management mitigates this risk. While pollution and other environmental damage could somewhat affect mortality rates in the long run, the overall trend towards increased environmental regulation mitigate this risk. Life insurers, which underwrite policies only in a limited region, could be more affected by natural and man-made disasters. However, HDFC Life does not face such risks, given its large scale and diversified business.

As for social risks, even as life spans have generally increased, changing lifestyles, rising obesity levels and pandemic/other disease-induced mortalities could have an adverse impact on the long-term mortality/morbidity rates. Thus, future claims could exceed current estimates. Increase in mortality rates could adversely impact the company's financial performance as it would be required to increase the reserving against possible future claims on the business written in the past. Other social risks stem from the potential mishandling of sensitive customer data and privacy breaches. This could impact the credit profile in the form of regulatory penalties or reputation damage. Human capital risks are also quite high for life insurance companies, like HDFC Life, with challenges that concern the recruitment and retention of key employees.

Liquidity position: Superior

The company's net premium (excluding ULIP) stood at Rs. 42,975 crore in FY2023 in relation to the maximum net claims and benefits (excluding ULIP) paid of Rs. 22,540 crore in the last few years. For 9M FY2024, the net premium (excluding ULIP) stood at Rs. 32,104 crore against net claims and benefits paid (excluding ULIP) of Rs. 13,478 crore. As a result, the company's operating cash flows have remained positive, leading to growth in its investment book. Additionally, investments in Central and state government securities stood at Rs. 1,20,218 crore, accounting for 65% of the total investments (excluding ULIP) as on December 31, 2023, further supporting the liquidity to meet the claims of policyholders. The shareholders' investment of Rs. 14,536 crore also remains superior in relation to the sub-debt outstanding of Rs. 950 crore as on December 31, 2023.

Rating sensitivities

Positive factors – Not applicable

Negative factors – A rating downgrade for HDFC Bank or a decline in the strategic importance of HDFC Life to HDFC Bank or in the expectation of support from the promoter could impact the rating. Additionally, a decline in the company's solvency ratio below 1.70 times on a sustained basis would be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Rating Methodology – Life Insurance Rating Approach – Consolidation Impact of Parent or Group Support on an Issuer's Credit Rating
Parent/Group support	Parent/Group Company: HDFC Bank Limited (HDFC Bank) The rating factors in the high likelihood of support from HDFC Bank, given the shared brand name and HDFC Life's position as a subsidiary of the bank.
Consolidation/Standalone	For arriving at the rating, ICRA has used the standalone financials of HDFC Life. However, in line with ICRA's consolidation approach, ICRA has factored in the capital requirement of HDFC Life's subsidiaries, which are listed in Annexure II.

About the company

HDFC Life Insurance Company Limited started its operations in 2000 and was a joint venture between HDFC Limited and Abrdn (Mauritius Holdings) 2006 Limited (formerly Standard Life (Mauritius Holdings) 2006 Limited). HDFC Life was listed on the stock exchanges in November 2017. Abrdn (Mauritius Holdings) 2006 Limited sold its stake over the years and its remaining stake of 1.66% in the company was sold in May 2023. Following the amalgamation of HDFC Limited with and into HDFC Bank, HDFC Life became a subsidiary of HDFC Bank from July 1, 2023. HDFC Bank is one of the three systemically important banks and the largest private sector bank in India.

HDFC Life provides life insurance, pension, savings, investment, annuity and health insurance to individuals and groups. Its products are offered under the participating, non-participating, and unit linked lines of business. HDFC Life's products are distributed through its ~500 branches along with individual agents, corporate agents, banks, brokers, and online channels.

Key financial indicators

	Audited	Audited	Unaudited
HDFC Life Insurance Company Limited	**FY2022**	**FY2023^**	**9M FY2024**
Gross direct premium	45,963	55,924	42,139
PAT	1,208	1,356	1,157
Net worth#	15,486	12,987*	14,167
Total investments@	1,23,549	1,59,580	1,85,861
13th month persistency	87.5%	87.5%	86.3%
61st month persistency	54.0%	52.3%	53.6%
Solvency ratio (times)	1.76	2.03	1.90

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore,
*^ FY2023 numbers are as per public disclosure; *Net worth declined in FY2023 due to the reduction in reserves and surplus by Rs. 5,469 crore on account of the impact of the (erstwhile) Exide Life merger, which allowed the adjustment of the negative amalgamation reserve of Rs. 4,837 crore arising out of the merger with the share premium and brought forward losses of erstwhile Exide Life of Rs. 632 crore, #Net worth includes fair value change account, @Investments exclude linked investments.*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Apr 05, 2024 (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022
					Apr 15, 2024	Jul 11, 2023	Apr 21, 2023	May 26, 2022	Jun 30, 2021
1	**Issuer Rating**	Long term	-	-	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**
2	**Subordinated Debt Programme**	Long term	600.0	600.0	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**
3	**Subordinated Debt Programme**	Long term	350.0	350.0	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not Applicable
Subordinated Debt Programme	Moderately Complex

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Issuer Rating**	NA	NA	NA	NA	[ICRA]AAA (Stable)
INE795G08019	**Subordinated Debt Programme**	Jul-29-2020	6.67%	Jul-29-2030*	600.0	[ICRA]AAA (Stable)
INE795G08027	**Subordinated Debt Programme**	Jun-22-2022	8.20%	Jun-22-2032*	350.0	[ICRA]AAA (Stable)

*Source: Company; *HDFC Life has a call option exercisable five years from the date of allotment and at the end of every year thereafter before the redemption date*

Key features of rated debt instrument

The rating also factors in the key features of the instrument, in line with the applicable guidelines for subordinated debt:

» Servicing of interest is contingent on the company maintaining a solvency ratio above the level stipulated by the regulator[5]

» If the interest payouts lead to a net loss or an increase in the net loss, prior approval of the regulator would be required to service the debt

Annexure II: List of entities considered for consolidated analysis

Company Name	HDFC Life Ownership	Consolidation Approach
HDFC Pension Management Company Limited	100.0%	Full Consolidation
HDFC International Life and Re Company Limited	100.0%	Full Consolidation

Source: Company

[5] *As per IRDAI, insurers are required to maintain a minimum solvency ratio of 1.50 times*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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