May 4, 2022

Ref. No.: HDFC Life/CF/2022-23/12

Listing Department
National Stock Exchange of India Limited
Exchange Plaza, Plot No C/1, Block G,
Bandra-Kurla Complex,
Bandra (East),
Mumbai- 400 051

NSE Symbol: HDFCLIFE

Listing Department
BSE Limited
Sir PJ Towers,
Dalal Street,
Fort,
Mumbai – 400 001

BSE Security Code: 540777

Dear Sir / Madam,

Sub: Disclosure under SEBI (Listing Regulations and Disclosure Requirements) Regulations, 2015

Pursuant to the provisions of SEBI (Listing Obligations and Disclosure Requirements) (Second Amendment) Regulations, 2021, please find enclosed transcript of the earnings call held on Tuesday, April 26, 2022, to discuss the financial results of the Company for the quarter and year ended March 31, 2022.

The said transcript and audio recording is also uploaded on the website of the Company at www.hdfclife.com

This is for your information and appropriate dissemination.

Thanking you,

For HDFC Life Insurance Company Limited

NARENDRA GANGAN
Digitally signed by NARENDRA GANGAN
Date: 2022.05.04 22:18:46 +05'30'

Narendra Gangan
General Counsel, Chief Compliance Officer & Company Secretary

Encl.: As above

“HDFC Life Insurance Company Limited FY2022 Earnings Conference call”

April 26, 2022

Moderator: Ladies and gentlemen, good day and welcome to HDFC Life Insurance Company Limited FY2022 Earnings 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. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Vibha Padalkar, MD and CEO, HDFC Life. Thank you and over to Madam!

Vibha Padalkar: Thank you, Faizan. Good afternoon everyone. Thank you for joining us for the discussion on our results for year ended March 31, 2022. Our results including the investor presentation, press release and regulatory disclosures are already available on our website as well as that of the Stock Exchanges. I have with me Suresh Badami, Executive Director; Niraj Shah, CFO; Srinivasan Parthasarathy, Chief Actuary; Eshwari Murugan, our Appointed Actuary and Kunal Jain, from Investor Relations.

As you know, we listed our company in FY2018 and we thought it would be good for us to share our performance over the past four years. We are proud to share that we have atleast doubled our new business premium, renewal premium, protection APE, assets under the management, value of new business and embedded value. Further details can be found on slide #5 of our investor presentation. I will take you through the key highlights of our FY2022 results and will be happy to take questions post that.

We clocked a growth of 16% in individual WRP in FY22 with a market share of 14.8% and 9.3% in the private and overall sector respectively. Despite very trying times during the 2 year pandemic, our 2 year CAGR of 17% was almost 2 times industry growth of 9%. Demand remained robust across most channels and segments and hence we continue to be optimistic about the growth prospects for the life insurance sector in the coming years. We are closely tracking the worrisome geo-political situation and its potential impact on inflation and consumption trends. In our view, life-stage products such as annuity and protection are relatively insulated from such external factors. With the severity of covid infections having waned, we have returned to normalised mortality experience. However, we remain watchful and will continue to keep an eye on the emerging situation.

Moving onto our business update

We continued to maintain a balanced and profitable product mix, with non-par savings at 33%, participating products at 30%, ULIPs at 26%, individual protection at 6% and annuity at 5%, based on individual APE. Almost a fifth of our non-par savings business in received premium terms, post the launch of Sanchay FMP in the second half of the year, consisted of single-pay products, which are relatively simpler to hedge. This gives us the ability to allow for a higher proportion of non-par savings in our business.

Overall protection grew by 24% in terms of APE and 47% in terms of new business premium. This was largely led by a 55% growth in credit life new business premium, on the back of higher disbursements. On the individual side, demand continues to be healthy in terms of number of applications logged in. However, proportion of policies actually issued still remains a constraining factor at our end on account of tighter sourcing guidelines, lack of a centralised medical database and underwriting challenges in tier 2/3 locations. With a combination of data analytics, insights into customer profiles and calibrated risk retention, we expect to be able to grow individual protection in FY23. Some of the initiatives taken by us in this space include development of an in-house automated underwriting engine, platform for scheduling medicals in real time, facilitating video medicals and integrating technology to measure heart rate, BMI and other vitals using video input from the customer's mobile.

On the retirement side, our annuity business recorded 24% growth vis-à-vis industry growth of 3%. Annuities now contribute over a fifth of our new business premiums. We have been able to almost double our business in the last 3 years.

We believe that protection and retirement solutions are multi-decade opportunities and will continue to grow faster than other segments.

We covered 54 million lives in FY22, registering an increase of 36% over FY21. We settled closed to 3.9 lakh claims during FY22. Gross and net claims were at Rs 5,804 crore and Rs 4,328 crore respectively for FY22. The reserves created during the year have been more than adequate to address increased mortality on account of Covid. As on 31st March 2022, we carry reserves of Rs 55 crore into FY23 as a prudent measure towards Covid.

Moving on to key operating and financial metrics

Our renewal premiums recorded a steady growth of 18% with our 13th month persistency ending at 92%, up from 90% in the previous year and our 61st month persistency ending at 58%, up from 53% in the previous year. Further, 13th and 61st month persistency for limited and regular pay policies, was at 87% and 54% respectively, up from 85% and 49% in the previous year.

New business margin for FY22 was 27.4%, vs 26.1% for FY21. On the back of our robust growth and margin expansion, we delivered a value of new business for FY22 of Rs 2,675 crore, 22% higher than FY21. Our VNB has grown at a 24% CAGR over the past 5 years and has almost tripled in the last 5 years. Our Embedded Value as on March 31, 2022 was Rs. 30,048 cr. We have been able to almost double our EV in last 4 years. Operating return on EV, after factoring excess mortality reserve or EMR created during FY22, was at 16.6%. Excluding EMR, operating return on EV would have been 19.0% as against 18.5% for FY21.

Profit after Tax (PAT) for FY22 was Rs 1,208 crore, a decline of 11% vs FY21 due to higher mortality reserve created during the year. Post wave 2, our PAT in Q3 and Q4 improved steadily, with PAT for Q4 registering a 12% YoY growth. The Board has recommended a dividend of Rs.

1.70 per share, translating to a payout of ~30% of our PAT, in line with our dividend payout ratio of FY21 and earlier.

Solvency as on March 31, 2022, stood at 176%, post the cash payout of Rs. 726 cr. to Exide Industries, as part-consideration for the acquisition of Exide Life. Excluding impact of this cash payout, solvency ratio would have been 189%. Our board has approved a sub-debt raise of Rs. 350 cr. which should increase solvency by around 600 bps. In order to further strengthen solvency to fuel growth, we will continue evaluating raising capital through a mix of equity and debt.

Next on channel performance:

All channels continued to perform well, with bancassurance growing by 13% this year and 21% based on 2 year CAGR. Proprietary distribution, which includes our agency, direct and online channels, grew by 18% this year and 11% based on 2 year CAGR, based on individual APE. Over the last 5 years our share of proprietary distribution increased to 33% from 23%.

Our agency channel grew by 26%. The channel added more than 40,000 agents in FY22, which is the second highest amongst private players. Our Agency Life initiative, aimed at capability development continues to see healthy participation. Moreover, we are focused on building a women Financial Consultant model which we believe would give us higher activation, retention and productivity.

Moving on to product, innovation and sustainability:

We continued with our efforts to stay relevant to customers' needs, offer new propositions and provide a seamless and pleasant customer experience. During the year we launched non-par savings plan Sanchay FMP, which now contributes more than 15% of our non-par savings mix. We also rolled out our retiral product, Systematic Retirement Plan, which is a regular pay deferred annuity. Further, we introduced a bundled solution, QuickProtect which combines our Click2Protect protection plan and riders to offer cover against the 3Ds - death, disease and disability.

On the ESG front, we have signed up for the UN-supported Principles for Responsible Investment (PRI), joining a network of more than 4,800 organisations around the world that have publicly demonstrated their commitment to responsible investment.

Now an update on our subsidiaries:

Our pension subsidiary, HDFC Pension, ended FY22 with an AUM of Rs 28,414 crore, an uptick of 73% vs previous year. Additionally as per National Pension Scheme fund performance report published in March 2022, we continued to rank #1 in terms of fund performance across categories. As on 31st March 2022, HDFC Pension had a market share of 37%, retaining its #1 position as private Pension Fund Manager (PFM) in terms of NPS AUM. NPS continues to contribute significantly to our annuity business.

Our wholly owned subsidiary, HDFC International Life and Re generated Gross Written Premiums (GWP) of USD 15.64 million, registering 18% y-o-y growth.

Our subsidiary, Exide Life recorded a healthy growth of 22% based on individual WRP in FY22, well-above the overall industry growth of 16%. Its Embedded value as on March 31, 2022, was Rs 2,910 cr.

The merger process has been initiated with NCLT and is expected to be completed in the second half of this financial year. We continue to make progress in being able to seamlessly integrate both the businesses, post regulatory approval. We are confident about continued margin expansion on standalone basis at HDFC Life and Exide Life and aspire to be margin neutral on consolidated basis in FY23. However, we will prioritise value preservation and investment in expanding the franchise.

On the regulatory front, our new IRDAI Chairman, Shri Debashish Panda unveiled his vision of Independent India being an Insured India as we celebrate Azadi Ka Amrit Mahotsav on our 75 years of independence. He mentioned a) Revamping regulatory framework to align with international benchmarks b) Outcomes & Tech based Supervision c) Simplifying regulatory processes d) Moving towards Product Certification by Insurers as per principles laid down by IRDAI and e) Supportive of tech led initiatives. These initiatives would help provide impetus to ease of doing business. Further, the Chairman has laid out a roadmap on how insurers would help drive the above, with 8 thematic groups already having been constituted and having kick-started work. With these path breaking initiatives, we are very optimistic of the prospects for our sector.

To conclude:

Our objective remains to bring more individuals under the financial safety net by offering multiple innovative solutions, increasing customer connect and continuing to expand our offline and online distribution.

The detailed disclosure on our results is available in our investor presentation. Wishing everyone success as we embark on a new financial year. We are happy to take questions now.

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

Suresh Ganapathy: Hi Vibha, congratulations on your good four years performance. Just three quick questions. One is on the 80 basis point change in operating assumptions impacting margins, what exactly is that?

Niraj Shah: Suresh, this is basically the mortality assumptions at the beginning of the period given what we see in the portfolio, so that is something that was put through at the beginning of the period itself and that is getting reflected both in the embedded value walk as well as in our VNB walk in the investor deck.

Suresh Ganapathy: Sorry the mortality assumptions you are saying right?

Niraj Shah: Correct.

Suresh Ganapathy: Now this is a recurring feature because I do not know? This can again recur next year? Are you confident that this is done and dusted or do you feel like this can evolve?

Niraj Shah: Suresh, the good thing is that it is done upfront and it is not something that is left for later. As you see that mortality experience evolves, this is something that we would continue to put through in our embedded value to take whatever charge that we need to take, but it is something that is not expected to be a routine element. As you know, the protection journey is fairly recent in India right, over the last few years. We have now slowly started expanding from the top 10 cities and from the salaried segment into tier 2, tier 3 and to beyond the salaried into self-employed and professionals. So as that happens the mortality experience will evolve and that is something that will change mortality experience as you go forward and that will get reflected in new pricing as well.

Suresh Ganapathy: Two general questions Vibha, one is the merger with HDFC Limited and Bank, the merger. How does it change the equation? In the sense that you see more opportunities on anything which you are not doing earlier you can do it more or any challenges that is the first generic question. The second question is how do you see LIC's IPO changing the equation, in the sense, have you seen them on the ground getting more aggressive on the non par segment. Are they launching new products? How the competitive environment will change, you know any perspective on that would be great.

Viba Padalkar: Yes, very valid. On the first one, while HDFC Bank was always part of the group, now with this merger going through, we will become a subsidiary of HDFC Bank or at least eventually post regulatory approval. So, there will be a direct alignment. That is number one. Number two is cross sell opportunities. I think every major business group is looking at cross sell opportunities in a very structured manner. Probably, the focus has not been there so far, because there was enough that was happening in our respective individual companies. So that is number two. And with the use of digital and data protection, we will see as to someone who is anyway well disposed towards buying from HDFC group of companies, such that whatever you need in terms of one stop shop, you can get it from here, so more of that will happen.

Suresh Ganapathy: Was HDFC Limited selling credit protect policies of life in a big way?

Viba Padalkar: Yes they were. Yes, they were selling it. But we would not probably have a lot of up-sell or cross-sell to them in terms of other products. So there would be a loan taken, there would be a coverage of the loan and then loan is repaid, cover is closed. So, these are all affording customers and we are known as product innovators. So for us to keep going back to say have you thought of this. For example, deferred annuity was not known maybe four years ago; or non par, we were the ones to launch non par the way it is understood as a category today. And we will continue with more so that kind of up-sell, cross-sell more of that can happen. Also, product innovation in terms of solutioning, whether it is a combination with HDFC Ergo and us, not that we were not doing it, but a lot more can happen with again alignment all of it sitting under HDFC Bank. So, this is just the beginning Suresh. We are of course brainstorming with CEOs of respective companies that is already more than started happening so I think certainly the intention is very clear that how do we leverage the power of the group to be able to give solutions to the customer. Of course, it will be done respectfully, in terms of how the customer is looking to be serviced, but there is still a lot that can be done within that arena, so that is on the first question. If I can move to the second question. Suresh, can I do that?

Suresh: Yeah, yeah please.

Viba Padalkar: On LIC, see the way I see it is that just from the India Inc perspective, the largest financial institution not being listed was probably not really comfortable. It is good that they are listing. It is good that there will be lot more disclosures. Ultimately the shareholders and customers, hopefully there is overlap. That is all a good thing, I think. Yes, there might be some short term turbulence in terms of FII maybe re-positioning, re-allocation and so on. But I do believe that is a short term. Now, from what I read it is Rs 21,000 crores outlay, as against maybe a 2x of that again anecdotally that we read earlier. So, it is not enormous in the scheme of things. But I think overall the positives are certainly there. I think you also talked about growth and so on. For some reason, I think their growth has lagged overall industry private sector growth, but you know they are akin to a large public sector insurer and I am sure there is enough. We should focus on expanding the pie, rather than just trying to cannibalize from one another. They also operate in a slightly different segment. Their ATS, their ticket size is about a fourth of our ticket size, so slightly different segments of operation. But you know it is nevertheless, there is enough when you triangulate that with life insurance penetration, pension as a percentage of GDP and so on, I think there is enough for everyone.

Suresh: Any feedback from your agency force on the ground. I mean from competition standpoint what they are doing or trying to do?

Viba Padalkar: So, Suresh I have a monthly business review of my zones and regions and that is where my day-long meeting starts out with financial consultants that I meet. Until now, in none of my meetings, have they ever cribbed you know, that so and so is happening on the ground. And as you know, this would definitely be on their agenda, if it was really consuming them or it was really topical.

That is not to say, it is not happening. I am sure it is happening in bits and pieces, but it is not consuming their minds on it.

Suresh: That is helpful. Thank you Vibha all the best.

Viba Padalkar: Sure. Thank you so much.

Moderator: Thank you. The next question is from the line of Arav Sangai from VT Capital. Please go ahead.

Arav Sangai: Hi, good evening madam and hope all well at your end. Madam first question is on the growth part. Like if we see the last couple of months and when the bases started getting high and even the base might remain high say for the next couple of months, so the growth for the industry as a whole has moderated and even in a rising interest rate environment and first half macro situation how do you see the narratives changing around some of our saving products or how do people react to like historically when we have approached them for these products like how do you see the growth panning out for the industry because this is a very big concern among investors right now.

Viba Padalkar: I just want to put that concern to perspective, because optically, it looks like growth in Q4 for the sector has waned somewhat. But if you look at the base effect for us, we, for example, grew 40% in Q4 of last year. We were just coming out one wave of pandemic and so on, but if I were to look at on a CAGR basis, if you are looking at the growth of 17% two year CAGR, I do not think that is a bad growth against the pandemic. Yes, industry growth was 9%, but it is not very bad. Also, if you were to look at standalone Q4, the two year CAGR was 23% for us. For the total industry it was 19%. So even for the total industry, very close to 20% kind of two year CAGR, you will agree that is by no means a tepid growth. But yes, optically it looks like that because of high growth on a standalone basis in Q4 of last year, so not really worried. Also, if you triangulate that with GDP say 8 and 8.5%, one can say maybe it is 100 basis points lesser, but I think you will agree that is not unlikely to be 4% GDP growth, so at 7, 8, 8.5% we should grow 2x of that and that has been the trend all these years.

Arav Sangai: That is helpful madam. My second question is on expense front. I think one of our other peers, they also mentioned that they will be investing a little much more in this year, to maybe expand their franchise and also, is it a trend. If they are spending extra, will it affect our VNB margins in the order of our acquisition expenses, you know, increasing. Is there any effect on our margins in the next year?

Viba Padalkar: So, our margins on a standalone basis, it will continue to trend upwards like we have consistently done over the past several years. Along with Exide Life, as a combined margin what we hope to end is to be flat against our FY2022 margins that will be a good outcome. But on a standalone basis, there will be expansion. So see expenses, unless there is something very unusual like an acquisition that is happening, it will be very much part and parcel of what we are doing.

Arav Sangai: Just one last question mam on bookkeeping. Since we increased our retention last quarter will it affect our mortality sensitivity going ahead as the new mix becomes a bigger proportion of our overall mix of our protection product?

Viba Padalkar: I will hand this over to Srini.

Srinivasan P: The mortality retention on the new business should be slightly higher, but the EV sensitivity should not really change materially, because the retention is applicable only for the new business.

Arav Sangai: All right Sir. That is it from my end. All the best for the coming quarters.

Moderator: Thank you. The next question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi: Vibha madam, fantastic results so far, growth is there, my point is, what is the profit from unrealized investment gains as on March 31, 2022?

Vibha Padalkar: This is nothing but the mark to market of our equity and there is also debt component in that, but simply mark to market. So as on March 31, 2022, whatever is the market rates that is what the underlying assets under management that will be a mark to market and in the unit link book for example, there will be a mirror entry. So, if from 100 you go up to say 120, you will have a similar movement in reserves and it will be neutral on profitability in terms of PAT.

Ravi Naredi: Okay, can you tell in merged entity of HDFC and HDFC Bank, how much equity HDFC Bank may hold in HDFC Life?

Vibha Padalkar: Whatever is currently, 47.6%* that HDFC is holding that is what will go to HDFC bank they hold the same, now they have asked for regulatory approval to take it up to 50%.

Ravi Naredi: After merger, how the working of HDFC bank will enhance our business growth in compared to HDFC at present?

Vibha Padalkar: Like I mentioned to the earlier question, there will be a complete alignment because of us being a subsidiary of HDFC Bank and therefore also paying a lot of attention on how do we give the customer a one-stop shop for all financial services solutions, right from perhaps opening up a small savings account when he or she just starts our job, to subsequently giving a mortgage when you get married or thereabouts in terms of lifestyle, you get your first policy when you are having a kid, health insurance, top-up mortgage and thereafter some fixed deposits, retirement solutions, so everything mutual funds in terms of your surplus that you want to re-invest, all of that. How does one do it in terms of harnessing the power of HDFC Group, a lot more work has commenced on that now.

***Erratum**: The stake of HDFC Ltd is currently 47.8% as on Mar 31, 2022*

Ravi Naredi: Okay and thank you very much and all the best.

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

Deepika Mundra: Good evening, Vibha, thanks for taking my questions. Firstly, can you walk us through capital requirements for the business going forward. I mean savings are already at a fairly balanced mix with protection expected to go up like you mentioned and higher retention, how should we view the solvency requirement for next year and at what levels would you be comfortable with the solvency?

Vibha Padalkar: I will just start off on this question Deepika, and I will hand over to Niraj and Srini. We started off with our solvency of 190% as of 31st of March^, there was a cash payout to Exide Life and that impacted 13%, the Rs.726 Crores, we ended at 176% as of 31st of March. Now we will be raising sub-debt, we typically have said that we will hover around 180% in terms of solvency, so I just wanted to set the context and over to Niraj or Srini, you want to add.

Niraj Shah: Deepika, I think each of these business segments have their own considerations in terms of capital, and as the existing business continues to become larger and larger, that funds the new business growth. As you are aware, that is the reason why the self-sufficiency in the model is really working that way. As far as protection business is concerned, yes, it will require more capital compared to some of the savings components. But as you are aware, even within savings unit linked products, for example, apart from the solvency capital there is also a fair bit of gap between the cost of acquisition and the product charge. So that is something which consumes a fair bit of capital as well, and over a period of time, as you are aware that we are expecting to move to a risk-based capital approach, and that will release significant capital for the industry. And that is something we need to keep in mind over the next maybe three year period as well. For us, clearly given where we are as a company, and the stand that our promoters have taken, we do not expect capital to be a constraint for growth whichever way we look at it. And on retention, as such it does not really impact so much, because the retention really has gone up from Rs.20 lakh to Rs.40 lakh and that is only for new businesses going forward. A large part of the solvency will really come from the back book, which is still at the retention levels of the past, so that is how we need to look at it and a lot of these things will progress over a period of time and things will evolve. And for us the bottom line really is that when there is an opportunity to grow and create value, we will not let capital be a constraint.

^Erratum*: The solvency of 190% was as of Dec 31, 2021*

Deepika Mundra: Okay that is very clear. If I may just follow up with one more question. I am not sure if I missed it, but what would be the total back book exposure now to guarantee products in total and again over here do you have a level in mind, in which you are comfortable with?

Niraj Shah: If you were to look at our new business product mix across each of the segments, today non-par is about 33% of our total new business. And the way to kind of look at it would be in terms of what does this really mean either in terms of profitability or in terms of risk or in terms of capital requirements - that is how we look at managing product mix going forward. Of course, it all really depends in terms of how the customer demand is really looking at each of these areas. So, we have launched a product in the last couple of quarters, Sanchay Fixed Maturity Plan. Large part of that product category as we discussed last time as well is coming through in shorter premiums including single premium. The risk management on that is reasonably straightforward as you could expect, and from a hedging perspective also it works fairly well, it helps us actually hedge the business that we have written at the longer end as well. So the capacity to write non-par is probably only going to increase from here on given the way our business has created a diversification and also the external support that is available through hedging instruments.

Deepika Mundra: Thank you so much.

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

Swarnabha Mukherjee: Thank you for the opportunity. Good afternoon. My first question is related to the par products. If you could highlight that the trend why the degrowth has been, is there a conscious effort to manage the product mix or is there some kind of demand softness that you see at the end or some other category might be cannibalizing on this if you could highlight on this?

Suresh Badami: This is Suresh here. Just to add, it is not really that we are trying to push one particular product, like we have mentioned in many other earlier forums. The product mix that we have been looking at is in terms of (i) what is good for the customer, which value proposition we want to take across; (ii) the capability of each of our channels to be able to sell that particular product, across onto whichever segment we were looking at and (iii) the internal drive to make sure that every channel is profitable, as well as make sure that we have a balanced product mix. So, we really cannot look at it in a quarter-on-quarter basis. On an annualized basis, if we really look at it, we have got a very clear balance and very similar to the kind of product mix that we had over last year. Just to kind of share with you, we are looking at last year, there was higher growth in par and that was the base, which had come in. So, our whole objective is to make sure that we balance between what the customer needs, what has been the base and you would find that typically, our two-year CAGR of par has been fairly good if you were to look at it, it is almost 44%. Coming out with innovative products, it also depends on what new products have been launched especially at that time, the new product of Sanchay Par had got launched. We had kind of ensured that everybody on the field, whether it was the SPs of our partner banks, whether it was the FCs, or whether it was our own direct employees had a much greater focus and attention to launch something in the market, and that led to a huge growth. These things tend to normalize over a period of time and now we are focusing for instance on Sanchay FMP, we are focusing on some of those new products, so I would not read too much to say par has come down I think our market share has grown on par, we have managed to maintain our overall product wise market share on par and we will continue to do that. For instance, there was a time we slowed down on term in terms of taking a calibrated approach, but now that we believe things are normalizing, you will find us coming back in terms of term growth.

Swarnabha Mukherjee: Okay, that is helpful Sir. Then in terms of the margin guidance that was mentioned, it will sequentially improve, are we looking at individual protection as an incremental lever for margin improvement because higher VNB margin kind of products now have quite a sizable base so if we look at the non-par savings or the credit protect book, they have grown quite well over the last couple of years and the base is quite high. So the incremental VNB growth and VNB margin, where do you expect it to come from?

Vibha Padalkar: Couple of things here; one is growth itself, because as we continue to do well on growth like we have done, our costs are not going to increase in the same proportion, so that becomes an additive point in terms of margin. Second is on non-par itself. In the past, we have said that about one third will be around non-par. Now we are getting more nuanced, it is also there in our presentation wherein the new non-par product, the Sanchay FMP has a shorter tenure and so we are seeing that in a different light than some of the other longer tenure non-par and so there is no constraint in how much we are going to sell that it is as much as we are able to sell it. That also will and should lead to margin expansion. Credit protect also is continuing to do well and hopefully all our partners will continue to do well, and we will piggyback on that growth and continuing to give relevant products there. It is a combination of all of these things wherein we will see that increase. Finally to your point on retail protection, for the past couple of years, for various reasons, especially pandemic, reinsurers, repricing all of that we meant that we have remained more or less flat, some quarters we have grown well, but largely we have remained flat. We are targeting at least a comfortable double-digit growth in retail protection and we are reasonably optimistic of being able to get there, so that also will add to accretion in margins, so all of this will contribute to it.

Swarnabha Mukherjee: If I understood you correctly, on the non-par bit, what you mentioned that you actually now intend to sell slightly higher tenure product for incremental margin, is that a correct understanding?

Vibha Padalkar: On the other hand, lower premium tenure so that hedging becomes easier either single premium or limited premium.

Swarnabha Mukherjee: That is very helpful, so one quick bookkeeping question if I may ask, so if you could give the breakup of the operating variance that is there in the EV walk of around Rs.150 Crores and the reason for the negative economic variance?

Niraj Shah: The operating variance is broadly two-thirds, it will be positive persistency variance and about one-third it is expense variance positive, so that is broadly the breakup of the operating variances. Economic variance has largely two things. Over the years, things have moved in different directions, but overall, from the equity perspective, it has been positive. And largely on the interest rate side, because of the higher increase at the shorter end, the longer end has resulted in a negative variance. So, that in balance as such for the year, it has been fairly flat. The two have in some sense cancelled out each other. So, different quarters behaved differently, but for the year broadly this is really the summary.

Swarnabha Mukherjee: Got it. That is very helpful. Thank you so much that is all from my side.

Moderator: Thank you. The next question is from the line of Jayant Kharote from Credit Suisse. Please go ahead.

Jayant Kharote: Thank you for the opportunity. I wanted to understand about the guaranteed longer-term products, there were some news articles about regulator not being comfortable with some of these products. I think there is an element of bond forwards in them, so what would be your view and basis that what would be the mix for our hedging and how much would FRAs be contributing to the overall guaranteed hedging pool?

Niraj Shah: First of all, we did look at that article and we have in fact interacted with all the counterparties that we are working with. We believe that it is really unfounded in terms of what the facts really are. Because, if you recollect RBI allowed the structure of FRAs towards the end of 2019 after getting a lot of comfort around the structure and what it really means, both in terms of risk as well as in terms of what it means for the counterparties, which is basically the banks and after that the approval was given for this structure. We do not believe, there has been any change in that regard. In fact, there is a thought of further liberalization on that front. So we do not believe there is any issue at hand as far as that is concerned. Having said that, from our perspective, as you know that we have started writing non-par products prior to RBI allowing us to do forward rate agreements, and we had this internal hedging capacity, which continues to date, given the way our CP book has grown. And added to that, there are other instruments as well and also the new products that we have launched actually help us do this cross hedge internally itself. So, our dependence on FRA is probably a lot lower than maybe overall at an industry level, and we manage dynamically in terms of which hedging instrument is going to be more effective from multiple fronts at the backend at regular intervals, so it is an effective instrument. As we go forward, we believe that with a very forward-thinking regulator, we may in fact get the ability to actually borrow directly from the market as well and that would further expand the way in which this business can be written. So, nothing really of any concern as far as the ability to hedge or in terms of instruments that may be available and options that may be available going forward.

Jayant Kharote: As we speak, it's BAU with banks on FRAs?

Niraj Shah: Yes, absolutely.

Jayant Kharote: Okay and secondly a couple of quarters back, Mr. Parthasarathy has spoken about the longevity assumptions on the protection side and he mentioned it has come down from around 92 to around 85, 87 if I am not wrong. If you can update us, where is that number right now and directionally where should it stabilize?

Srinivasan P: These numbers actually are fairly stable, it does not change quarter-on-quarter. So I think whatever numbers that I talked about was based on a report published by the Institute of Actuaries. It gets updated probably once in three years, four years, so there is no any more recent update than what I spoke a couple of quarters ago with you.

Jayant Kharote: Those numbers for us, I think you spoke about the industry level. So, for us i.e. HDFC Life, this number would be similar?

Srinivasan P: Yes, it is very ballpark.

Jayant Kharote: Thank you very much.

Moderator: Thank you. The next question is from the line of Hitesh Gulati from Haitong Securities. Please go ahead.

Hitesh Gulati: Thank you for giving me the opportunity. I just had a question on economic variance, I just wanted to understand in the last call you mentioned that unwind above or below 8.5%, we will be showing it through investment variance. Is that one of the reasons, that the economic variance is so low just negative Rs.50 Crores despite rise in yields?

Niraj Shah: Hitesh, couple of things right, the equity movements have cancelled out the slope change on account of the interest rate. And also yes, we cannot completely take credit for taking unwind rate at very close to where we are at the end of the year. But there is a fair bit of thought that goes into what is likely to happen which goes in through the unwind rate that is determined at the beginning of the year. It so happens that the economic variance is basically almost zero because the two movements are actually cancelled out each other, so both of these things are I guess in a way playing a role, the equity and the debt changes kind of cancelling out each other and the expected rate being fairly close to what we actually realized.

Hitesh Gulati: Do FRAs also have a significant impact on how we look in economic variance because some of the peer companies have shown quite a negative impact in economic variance so just trying to understand that.

Niraj Shah: No Hitesh, that would not really play a role at all.

Hitesh Gulati: Okay.

Niraj Shah: If you are completely hedged, this should not really play a role at all as far as the economic variance is concerned. Economic variances only be really in terms of the actual movements, which are different from what you anticipated both on the equity side and on the debt side.

Hitesh Gulati: Thank you. That is it from my side.

Moderator: Thank you. The next question is from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Just one question from my side, what really explains margin expansion if you look at the business from a fourth quarter basis which is either on a quarter-on-quarter, or a year-on-year basis?

Niraj Shah: If you look at Q-on-Q, really apart from the assumption change on mortality which we did discuss large part of, it is largely coming through in terms of the product mix shift. We have written more annuities in this period and the CP business continues to do reasonably well, we managed to reprice a large part of the business over the last 12 to 18 months and that is something that has helped us as well and as such even in terms of the group business composition, business is lower this year compared to same time last year. So, it is a combination of these two or three facts. On the non-par side there has been a slight expansion in the quarter from 32% to 35%. So, each of these three or four things have played a role in the expansion.

Nischint Chawathe: Has the duration of policies on the non-par also gone up?

Niraj Shah: I am sorry. Before that, the last bit is also in terms of some sort of leverage that has come through in terms of scale, so that also has played a role in the expansion. So not really Nischint. What has happened is that if you recollect, we have launched Sanchay Fixed Maturity Plan, which basically is a 10-year product give or take. A large part of that business is single premium so it is a 1:10, some of the business is 5:10 (Premium paying term: Policy term). So, that in fact in fact has actually on an overall basis would have actually reduced the policy term on non-par.

Nischint Chawathe: Thank you.

Moderator: Thank you. The next question is from the line of Dhaval Gada from DSP Mutual Fund. Please go ahead.

Dhaval Gada: Thanks for the opportunity; have two questions. First one was on margins. I understand the guidance of maintaining margin on merged basis, just wanted to understand from a medium term perspective, can the margins move closer to 30% and the context is if you look at the last four years, we have seen a large part of the margin increase being driven by a product mix change and this has come despite sort of negative assumption changes which Suresh also alluded earlier. So, just how much more headroom is available to sort of take the margins higher closer to 30% in the next three to four years.

Vibha Padalkar: It should be possible. All things being equal on regulations, it should be possible and that is what we will be working towards. It will kind of stabilize around that, and this is, of course, with the caveat that we do not drop market share. Assuming that we hold our number three position amongst all the listed companies, including LIC, so without dropping that. Without dropping market share, but we still are gunning for getting close to 30% and thereafter if there are no further regulatory relaxations or enablers, then having a compounding story of about 20% year-on-year, or close to that in terms of value of new business. Having said that, we are hopeful given the tone set by the new IRDAI Chairman about a lot of things, on technology, on ecosystems, on use and file, a lot of speed to market, collaboration perhaps with other regulated entities, pension, general insurer, health insurance and many, many more. I do not personally think that it is going to be a status quo. It will be an enabler, but I am not counting that in, because I do not know in what form or shape. So all things being equal, yes we should be getting towards 30% in the medium-term.

Dhaval Gada: Just one final thing, on the sort of capital just again, so if you look at the free surplus movement, if you could explain that in the last year, it has dropped about 350-odd Crores, and just in related to this is what will trigger an equity raise, if you could just help me understand what one should look for in terms of your willingness to go towards an equity raise that would be helpful.

Vibha Padalkar: While I will leave the first part of the question to Niraj on the net worth, but we will, over a period of time, whatever we need to support growth and opportunities, we will have to have adequate capital and yes we will not rule out combination of equity or debt like I had mentioned in my opening remarks.

Niraj Shah: Just to add to that, we are fairly close to the level that we want to be, like Vibha had mentioned. We are at 176%, we would like to be in the 180-190% range, given what is expected going forward. The distance between where we are and where we need to be is not very high, so the number that we are talking about is not going to be very significant that is one. On the net worth front, of course as you are aware multiple things have happened. On an ongoing basis, typically you add your accretion from the backbook, which is your PAT that comes through. Then you have any sort of capital movements, largely in terms of dividend payouts in the beginning of the period after the AGM, and any sort of capital that comes through in terms of the ESOPs that get exercised. Apart from that largely, the big movements are in terms of any sort of NPA movements on the shareholder funds, and in our case this time the big movement really was in terms of the cash, that went out because of the Exide Life acquisition. These are the four or five aspects which go into how the net worth or the free surplus has moved in this period.

Moderator: Thank you Mr. Gada, may we request that you return to the question queue for follow-up questions. Thank you. The next question is from the line of Avinash Singh from Emkay Global. Please go ahead.

Avinash Singh: Hi! Good evening. Couple of questions. First, if you can just help us understand the supply side and demand side reality on the retail protection. How do you see sort of growth and margin in this business; that is first. Second, was again going on the free surplus part, if I recall your required capital level what you set in your EV is around 180%. So just if you help me at 176%, how is a sort of the free surplus coming in, these are my two questions.

Vibha Padalkar: So, Avinash on your first point, just to understand you are saying margins on health is it.

Avinash Singh: No, I was saying that considering the supply side and demand side changes that has happened over the year, how do you see retail protection shaping out in FY2023 both from the growth and margin perspective.

Vibha Padalkar: Right understand. We have been flat so far, because of like you mentioned, pandemic and reinsurer and pricing and all that. We are fairly optimistic of being able to grow double digit and as against the last year, industry also did not grow, we also were flattish. From HDFC Life point of view, while following and continuing to follow a risk calibrated approach, we are hoping to grow double digits on individual protection, and this is without necessarily retaining a lot more on our books and so on. We have said that we will retain about 40 lakhs on our books, we will continue with that, but with nuanced approach, we hope to grow. Yhat is number one. Credit protect should continue to grow well. We grew about 55%. We hope to continue to see that traction. We have also repriced quite a few relationships in lights of pandemic that is an ongoing exercise and part and parcel of how we are covering mortality risk. Both these put together, we should grow. We have grown about 24% on an overall protection basis, but we remain fairly optimistic of our ability to continue to grow.

Avinash Singh: Any price changes in retail protection you are taking in FY2023 or not.

Vibha Padalkar: Nothing that is on the cards right now.

Avinash Singh: My question on the free surplus.

Niraj Shah: Yes, Avinash on the free surplus, if I have understood you, you are referring to the level of the solvency. As you are aware regulatory solvency is 150%. For the purpose of EV, we basically take 170%. Right now, we are something in excess of that.

Avinash Singh: It is very clear; I was confused with 170% and 180%.

Niraj Shah: Yes.

Moderator: Thank you. The next question is from the line of Shyam Srinivasan from Goldman Sachs. Please go ahead.

Shyam Srinivasan: Hi! Thank you for taking my question. Just laboring on the retail protection, I think in opening remarks Vibha you mentioned about video checks and stuff, you are connecting to the customer mobile. If you could elaborate how that can, and I am just tying it to your original comment that while applications come through, we are still not able to process. That number I recollect from quarters that was like 60%, so just help us understand how debottlenecking some of your own processes could help to improve growth specifically related to retail protection.

Vibha Padalkar: Some of the things here. One is that out of every 100 applications, we have mentioned in the past we are converting about 61. We are taking reasonably realistic targets. So say, instead of 61, even if I convert it to 70 or 75, that will get me to that answer. So, that is what we are looking at, is that we are trying to solve for the entire process. We have launched MediEasy. This you will find on slide #21 of our investor ppt. What it does is that it walks our frontline salesperson step-by-step because what we did find is that the rules keep changing because of pandemic, because of reinsurer, because of what we ourselves are looking at in terms of addressing new and emerging risks and so on. All the right reasons. However, the guy on the field is very confused, there is attrition whether we like it or not, there is people movement, and then there is a lot of back-and-forth, and the customer gives up or the frontline salesperson gives up on combination of these. How can we have this iteration, wherein the first step is to say okay, we need this document; okay, if you do not have this document or rather the customer does not have this document then we have a call center, which has an assisted call center with chartered accounts to say okay, instead of this especially for the non-salaried this should be fine or this proxy can be fine and so on. Because the guy is sitting with the customer or sitting virtually with the customer, and he is able to get, that rather than it is coming back to central operation going back-and-forth and so on. Similarly, looking at what other data points were resulting in us in that same 100 minus 61 why has there been a drop of and is there some other ways of getting to the same answer. For example, today, we do not have a deduping between our credit life database and our individual database. Now with the use of technology, if we can try and see personas of what is behind this person in terms of both financial risk as well as medical risk that again could help us address some of that drop off that we are seeing currently. Similarly with reinsurer, we have been partnering with the reinsurers and that has been well appreciated in fact reinsurers have come back to us to say that we are erring a little bit on the side of caution and they are obviously fairly pleased about that and willing to look at certain personas. If you also look at MediTech for example, whole host of things again on slide #21 on the bottom right-hand side, how do we get a proxy for diabetes, how do we get a proxy for any heart related illness without that individual going in for a medical, which obviously given the pandemic, he or she is hesitant to do that and we understand that. For us, we are again able to triangulate that with age, with various other datapoints, and his or her resistance to go in to get a medical being able to use MediTech to be able to solve that. Another point we have just gone live on this wherein underwriting engine, which although we are only right now launched for savings, but that has an error rate of 0.001% now and it is ML so it is a machine learning tool, which is getting even better as we speak. We have rolled it out wherein human underwriters have been substituted so that the customer can be given a straight through processing, can be given much better experience and so on. Now the next phase is to start taking baby steps to look at term as well. What this will do is that, now again how do we reduce the drop off rate, yes, we need to increase the funnel also admittedly, but that is one part of it. We are saying that people have come in out of my example of 100, people have paid money, filled in the proposal, and we are not able to issue them with the policy and we return their money, so let us focus on the drop off first and that is what we will be giving and have been giving disproportionate management bandwidth to reducing drop off.

Shyam Srinivasan: Thanks so much, all the best.

Moderator: Thank you. The next question is from the line of Sanket Godha from Spark Capital Advisors. Please go ahead.

Sanket Godha: Thank you for the opportunity. The simple question what I have is that I just wanted to understand how much FMP contributes to the total individual APE in total non-par is 33% and just wanted to understand if the incremental focus is on this particular product from risk management point of view, how much this 33% in contribution of non-par can potentially go to say 40%, 45% kind of number, any number you have in your mind which could be the margin driver going ahead.

Vibha Padalkar: Can I take the first question first and then you can move on to the second question.

Sanket Godha: Sure.

Vibha Padalkar: On the first one what we are saying is that long-tenured policies that we sell will have an overall cap, which we have had, but on shorter tenure we have no cap.

Sanket Godha: Basically, you mean to say that if there is a decent demand for single premium FMP plan then you can even take the total non-par mix even beyond 40%, 50% kind of a number.

Vibha Padalkar: Hypothetically yes.

Sanket Godha: The margin of single premium FMP will be better than the company average.

Vibha Padalkar: It will definitely be better than some of the other segments like par and UL obviously, so there could be a substitution for that and thereby taking it up because of that substitution.

Sanket Godha: Got it perfect, and the second thing was that just from the HDFC Bank merger’s perspective, we make an advertisement spends in HDFC Bank as a channel of around 800 Crores which we did in nine months FY2022. So just wondering how this will play out if it becomes a direct baby of HDFC Bank given it is a direct subsidiary now then do we expect these advertisements spends coming off, and if it happens will this be a very big lever for margin expansion, how do we read this to play out.

Vibha Padalkar: Little bit premature Sanket because it has just been announced I think over a period of time we will work very closely with HDFC Bank folks to see how as a parent-subsidiary we can, the dynamic that obviously will change but little bit early in the day. Now the advertisement is really what happens is there is multi tie and the reason for the advertising budget is that when people walk-in to the 6,000 branches and engage with them virtually and so on we need to be out there, we need to be able to say this is Sanchay FMP, this is our new retirement plan and so on and that visibility has to be there and that is why the advertising. Now, how things will change down the line, we will have to see, there will always be some advertising because the bank has said there will be multi tie and multi tie we believe is good for the customer. Yes, there could be, how much of multi tie is a different question. Some level of multi tie is wherein you are giving customer the choice to buy various products, and I also personally believe that most banks eventually will open up to multi tie, and so some level of this will be there. We will have to see in terms of how things pan-out. However, what is important is how do we expand the pie rather than just which cost might not be there and those sort of things the focus will be on how do we cross sell because that just has not been done in a systematic manner as of today and like I mentioned with one of the earlier caller it has been somewhat in a standalone company view rather than a financial conglomerate and that lens will change, we will look at our balance product mix, we will look at how can we like I mentioned earlier up-sell relevant to the customer needs and that itself will give us the kind of uplift.

Sanket Godha: Can you tell me the current FMP contribution to the total APE if you are okay to disclose that number, exact number.

Niraj Shah: Sanket, this has been launched a few months back so since launch it is about 15% of the business.

Moderator: Thank you Mr. Godha may we request that you return to the question queue for follow-up questions. Thank you. The next question is from the line of Abhishek Saraf from Jefferies. Please go ahead.

Abhishek Saraf: Hi! Thanks for the opportunity. I just had few quick questions pertaining to Exide Life, just quick ones. If you can just give me some number on what could be the VNB margin post-OR if I had joined late so probably, I might have missed that if you mentioned, and secondly if you can give some color on the cost savings that we are doing, so if any number around rationalizing of branches or other numbers that you can share where we are able to save cost and then I have one follow-up question after this.

Suresh Badami: On the margins that you are talking about, we are on the low single digit post overrun. We do believe that we will be able to scale this up in the natural course of business once it merges with us and over a certain 36-to-48-month period, we should be able to and maybe even lesser than that we should be able to bring it close to our kind of margins. So, that should not really be a problem. On the other piece in terms of how the integration and how we are trying to get value capturing synergies, let me tell you that look there are some 23 work streams working on every aspect of the business between both the teams and we are looking at the best practices across both the companies. There is a clear focus in terms of where we will be able to get wider distribution focus, we are looking at the entire product portfolio between what Exide has and what we have got, also in terms of how we will be able to take some of our technology and digital tools across to their set up. Branch rationalization is one of the piece; obviously there are a few branches which we look at which are close to each other we are open to look at which of the Exide branches are probably better fit and better catchments and we will probably be able to merge. So, on both sides we are looking at finally as a merged entity which are the best resources. We do believe that we will get scale for the entity and we would be able to expand into markets. The good thing like we have mentioned earlier in many forums was that look in Exide, a lot of the businesses they do is in south, in some of the tier II, tier III markets which is clearly expansion for us. We do believe that some of that we will be able to scale up, we will be able to expand our geographic presence and similarly, based on their agency model, we will be able to expand into other parts of the country.

Abhishek Saraf: Sure, thanks for that. Did we do any branch rationalization in the last three months, has that happened?

Niraj Shah: No, as of now what we have done is we have just looked at branch overlaps. Like we clearly mentioned that it is going to run as a separate entity and subsidiary till we receive the NCLT approval. As of now, we are just looking a backend exercise in terms of what we can do. There are a few branches which we have understood but, we have not done any rationalization as of now. But, we do believe we understand which are the markets that we are able to cater to, and our objective, like has been clearly mentioned, just to make sure that we continue to get the upside from the Exide merger over the short to mid-term and then look at how synergistically we can grow as a merged entity.

Moderator: Thank you Mr. Saraf may we request that you return to the question queue for follow-up questions. The next question is from the line of Nidhesh Jain from Investec. Please go ahead.

Nidhesh Jain: Thanks for the opportunity. Two questions, first on the pure protection are we sensing any change in the stance from the reinsurers as of now, are they becoming more open to doing business the way they were doing pre-COVID or still they remain as strict as what we have seen last year.

Vibha Padalkar: It is I think a little bit too early. My personal sense is down the line I do not know what time frame. I think depending on wave 4 and so on. Till that is out of the way, I think there will be some level of concern in their minds. I do not see that happening immediately now, but over a period of time, yes, the high alert situation that we have been in, that should ease off a little bit but it is still someway away.

Nidesh Jain: What was the conversion rate before COVID the 60% conversion rate that we have today, what was that before COVID?

Vibha Padalkar: We used to convert maybe around out of 100 at least 75.

Nidesh Jain: Lastly on non-par product, in a rising rate environment, so in last three years the interest rates have been declining and the demand for non-par product was very, very strong probably the alternative savings instruments have seen significant decline in the yields that they were offering, but in a rising interest environment how do we see demand for the non-par product and since we are hedging bulk of the non-par internally, does it disadvantage us in any way versus FRA hedging where our peers may be able to offer better IRRs than us. These are the two questions on non-par.

Niraj Shah: As far as demand is concerned, we have seen interest rates only increase in this year and both at the shorter end as well as the longer end while that has happened the business demand continues. Even as we speak, the demand far exceeds what we are writing as a company as far as this product line is concerned. So, the key really is not absolute rates, it is a relative proposition to what other instruments are available and if you were to compare it to a shorter-term instrument typically the returns on that are very very different from what we are able to offer because the large part of the product is at the longer end. Even in Sanchay Fixed Maturity Plan, the term is 10 years. So, that is very different from a typical short-term fixed income instrument that people buy. Relative to what is available in the market, it continues to be attractive whichever way the interest rates have gone. Second, also the tax advantage on top of that is something that definitely is helpful. As far as hedging is concerned, we monitor this fairly closely and it is fairly dynamic, we are fortunate to have this internal capacity, which we use depending on how the external environment is as well. We do not want to be overly dependent on any one instrument whether it is an external or internal capacity, so that is the reason why it is a multi-pronged hedging strategy at the backend. As far as FRAs are concerned and relative disadvantage to anybody else, I do not believe so because so far there is only a yield pickup that we get on account of forward rate agreements because of the way the term structure is in terms of the interest rates. If that changes then that will again be equally applicable to everybody. It is not that the terms that we get are different from anyone else and if there is any advantage to be had out of writing more, hedging more through FRAs, we would take that call without being excessively dependent on that category.

Nidhesh Jain: Sure understood. Thank you.

Moderator: Thank you. The next question is from the line of Mayank Gulgulia from SUD Life. Please go ahead.

Mayank Gulgulia: I have a question related to sensitivity analysis. Basically, impact of equity market return on EV. Equity market downward moment of 10% would have 1.4% negative impact on EV. This 10% is overall return on equity portfolio or this 10% is over and above like we might have assumed some return from equity, so it is over and above that.

Niraj Shah: It is a difference between what is expected and what is actually, so for example, if you take any of the sensitivities you have a base which is the expectation. In persistency, mortality or equity, you will have a base, anything over and above that is what is captured in the sensitivity. So, if you are expecting to return is say 10% and 10% delta from that means 11% or a 9% return and the impact of that is what is captured in the sensitivities.

Mayank Gulgulia: This 10% of return expected, so not 10% plus or minus 10%. This is 10% of 10%.

Eshwari Murugan: Just to clarify, the equity sensitivity implies that the equity values fall on the date of the calculation of the EV, the equity values fall by 10% what would be the impact on EV what is captured in the sensitivity.

Mayank Gulgulia: Just to clarify further the assumption is 10% so if equity market risen by 15% next year so can we say like 5% extra is done so delta of 1.4% we can divide by 2% and broadly ballpark number 0.7% positive impact on EV is that the right way to look at?

Srinivasan P: This is instantaneous shock, so whatever the valuation dates or whatever the assets were if they were to fall instantaneously by 10% on that very day, what is the movement in the EV is what this is.

Mayank Gulgulia: Lower reinsurance on retail protection, so how it is impacting our margins on the standalone retail protection business.

Niraj Shah: No, there is no impact really as you know the reinsurance cost is basically one of the components of the overall cost as the risk charge and if we retain on our books, we will obviously need to capture that risk charge ourselves in addition to everything else and the same would hold for the reinsurers and there is not much of a gap between what the reinsurers are charging today versus what our assessment of the risk charge would be. The delta between that would have been higher before the reinsurers increased their prices.

Vibha Padalkar: We also increased it, thereby nullifying some of the impact.

Mayank Gulgulia: Okay got it thank you, thanks a lot.

Moderator: Thank you. The next question is from the line of Rishi Jhunjhunwala from IIFL. Please go ahead.

Rishi Jhunjhunwala: Thanks for the opportunity. Just quickly on the agency workforce with Exide Life getting integrated can you give some sense in terms of what are our targets in terms of total agency strength that we want to maintain. What kind of increase we are looking at and also just a sense in terms of what is the proportion of active agents and what kind of retention rates are being witnessed since the integration.

Suresh Badami: Sorry, I could not catch your second question, I will ask you to repeat, but on your first question in terms of the agency business and what kind of growth we are looking at Exide Life, very clearly, they have had a fairly strong growth. This has been a little different earlier, we had a fairly decent growth in line and slightly higher than the industry. We do believe that given the brand that they will now benefit of HDFC Life along with the product as well as our ability to invest in branches, infrastructure and many other resources, which will be available, we should be able to get a much higher throughput in terms of actually recruiting financial consultants, in terms of activating more consultants as well as productivity and ticket size of the kind of products that we are able to sell through HDFC Life. In our initial interaction with a lot of the financial consultants, advisors at Exide Life we have found that they are eagerly looking forward to the kind of products that HDFC Life has on the table. So, we are fairly optimistic in terms of growth that they will be able to continue in terms of what they have been able to build, they have a very strong franchise, they have a fair amount of financial consultants, leaders who have been there with them for a very long period of time. We do believe that, if our agency business were to grow at a certain pace, the combined entity of the agency business of what Exide financial consultants comes in should be able to do that and maybe a little bit higher, so that should not be really a problem. There is actually if you ask me not just the synergy that we see only in the agency business, I think they are enthusiastic about the growth in all the channels of Exide Life. We do believe that the cooperative bank as well as some of the broking relationships that they have got, are fairly incremental and complementary to our business growth, so we do believe that we should be able to grow that. Also, a fairly large customer base, on which they have cross-sell and up-sell on their direct business. We believe that we will be able to with our analytic skills, with our SMPs along with what they bring in terms of their campaigns, it will be incremental for us to be able to grow that line of business also. Actually, across the direct business, broking business, bancassurance of those much smaller than us on bancassurance and on the agency business, we should not see any slowdown and which is one of the primary reasons why we said we will look at Exide in terms of the company, which will come in and add complimentary to us. Sorry on the second question the sound was not very clear so I could not hear.

Rishi Jhunjhunwala: Yes, I will repeat Sir. Thank you. Basically, the question was how many active agents now we have and what kind of retention rate can we see?

Suresh Badami: At Exide Life, so they have around 40,000 FCs which are there right now and they have a fairly active base which is there. So, we do believe that we will be able to at least further activate, their activation is in line with actually the industry activation. So, it is not that they are off in terms of the number of agents, which are active. We have not lost any major agent, in fact if you have looked at the quarter four number, they have been absolutely on target in terms of what the agency team has been delivering. So, even there we believe that if we are able to look at the number of new financial consultants and agents that they will be able to recruit that will be in line and in fact they have been constrained on their growth because of their capital and many other thresholds which they have not been able to invest in that business. I think, a lot of those hindrances will go away once they become part of the HDFC Group and they have actually shown almost a 22% growth last year if you were to look at them at overall as Exide.

Rishi Jhunjhunwala: Thank you.

Moderator: Thank you. The next question is from the line of Sanket Godha from Spark Capital Advisors. Please go ahead.

Sanket Godha: Last one from my side. Just wanted to understand our FRA exposure, which was Rs.137 billion at the end of FY2021 what is the current exposure we have at the end of FY2022 and given the current solvency calculation regime, if yield curve becomes flatter compared to what it was, then most of the derivative contracts might go out of money, notional loss. So likely impact on it on the solvency, if it plays out.

Niraj Shah: The FRA exposure is close to about 18,000-19,000. I think it will be there in the annual report in any case. But to your second point, in terms of the impact of the flattening curve there are two things here. One is as of now the whole flattening thing is something which is a little maybe overplayed, I think if you look at the way the interest rates have moved, they have not moved only at the shorter end they have moved of longer end as well. The curve continues to be fairly steep even today. Having said that if there is further flattening that happens, what will happen to start with is that the spreads that are there currently available will probably shrink further as they have since the inception of FRAs and when the yield curve starts getting inverted that is when you are talking about the situation that you just spoke about. Now, if that were to happen, we would do a couple of things. One, as of now at any point in time, if you have a fairly significant equity portfolio, there are equity FVC gains that are sitting in your books for which you do not take solvency credit because of the regulations. A lot of that is used to actually offset any sort of impact of interest rates movement in the wrong direction from an FRA perspective. So, that usually covers for most scenarios as far as impact on solvency is concerned and beyond FRAs, I mean we kept reiterating we do not want to be overly dependent on forward rate agreements either given our risk management strategy. So, that is also something that allows us to mitigate the impact of any of these situations that could happen. Over a period of time, we are expecting more liberalization in the regulatory framework both in terms of the way solvency is calculated, which currently penalizes you for being economically hedged, but on the accounting side you end up creating that solvency impact over time, we expect that to kind of go away with RBC coming in for sure and also in terms of if we allow to borrow directly then you get rid of this problem altogether. If you take a two-to-three-year view then a lot of these developments will happen which will actually help us tide over any of these situations that you are talking about.

Sanket Godha: The equivalent RBC solvency for 176 currently calculated would be how much if you have internally done that math.

Niraj Shah: We have, that will be fairly significant I mean not really sharing numbers, but it will be fairly significant.

Sanket Godha: Okay perfect, that is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from White Oak Capital. Please go ahead.

Anand Bhavnani: Thank you for the opportunity. Just a quick clarification on Exide Life. You made a comment that due to their solvency, they probably had some growth constraint. In the ppt, I see that their solvency is 217%, which is higher than ours. So why would that be a reason for any growth challenges in Exide?

Suresh Badami: Yes, I think look the constraints on their end have been more in terms of the expense of management which goes away once they come in with us. Once they merge with us in terms of their ability to be able to invest further in agency on growth that is where they have been struggling. So, I think that is one part which we will be able to solve with this merger and their agency business will be able to grow and not on solvency.

Anand Bhavnani: For our solvency, our current preferred route of tier two raising debt which help improvement by 6%, do we anticipate that to be the primary source rather than any equity raise?

Vibha Padalkar: No, it is a combination of both like I mentioned in my earlier comments, it will be both. Right now, we are raising tier 2, but over a period of time we will assess the need for capital and it is always possible that we might raise a small amount of equity at that point in time.

Anand Bhavnani: Any particular variables you kind of use to decide which tool to use which method to use for addressing solvency.

Vibha Padalkar: With solvency, there is an overall cap based on regulatory formula. So, what we are doing right now, we raised 600 crs earlier and we are raising further now. As our back book increases, we will be able to raise more. We will look at overall the weighted average cost of capital (WACC) to see what works for us as well as how much do we need, how soon do we need, so basis few factors, we take a call down the line.

Anand Bhavnani: Yes, thank you and all the best.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Ms. Vibha Padalkar for closing comments.

Vibha Padalkar: Thank you Faizan. We would like to thank all of you for participating in our results call. Further details can be found in our investor presentation on both our website as well as that of the exchanges. Thank you and have a good day.