April 25, 2024

Ref. No: HDFC Life/CA/2024-25/15

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: Transcript of earnings conference call for the quarter and year ended March 31, 2024

We wish to inform you that pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed transcript of the earnings conference call with analysts and investors held on Thursday, April 18, 2024, to discuss the financial performance of the Company for the quarter and year ended March 31, 2024.

The said transcript has been hosted on the Company's website at https://www.hdfclife.com/about-us/investor-relations.

This is for your information and appropriate dissemination.

Thanking you,

For HDFC Life Insurance Company Limited

Narendra Gangan
Digitally signed by Narendra Gangan
Date: 2024.04.25 20:16:54 +05'30'

Narendra Gangan
General Counsel, Chief Compliance Officer &
Company Secretary

Encl. As above

HDFC Life Insurance Company Limited

12M FY24 Earnings Conference Call

April 18, 2024

Vibha Padalkar: Good evening, everyone. Thank you for joining this conference call to discuss our company's results for the year ended March 31st, 2024. Our results, which include the investor presentation, press release and regulatory disclosures, have already been made available on both our website and the stock exchanges. Joining me are Suresh Badami, Deputy Managing Director; Niraj Shah, ED & CFO; Eshwari Murugan, our Appointed Actuary, and Kunal Jain, representing Investor Relations. Let's delve into the key business updates for the fiscal year 2024.

Starting with operating performance:

Despite the budget changes impacting high ticket size business this year, we delivered a healthy growth of 20% for Q4 after adjusting for the one-off business of Rs. 1,000 crore in March 2023. Our stated aspiration of a double-digit growth for the full year was achieved with us clocking an 11% growth for FY24, on a normalised basis. We achieved individual APE growth of 1% on an unadjusted basis.

During the first eleven months, we have grown faster than the overall industry growth of 9%. During the same period, our private market share stood at 15.4% and we maintained our position amongst the top 3 life insurers across individual and group businesses. On a full year basis, our premiums reflect a healthy 2-year CAGR of 13%, despite the headwinds during this period.

We have established a sustainable foundation for FY25 through targeted initiatives aimed at key growth metrics as follows:

- Growth momentum continued across ticket sizes upto Rs 5 lacs with robust growth of over 22% in Q4 and 19% for full year

- Tier 2/3 markets recorded a growth of 13% against overall company growth of 1%

- In line with our intent to broaden the customer base, the number of policies for the year increased by 11%, which is almost 3x overall industry growth, based on first eleven months data. In Q4, NOP growth was 14%

- On a 2 year CAGR, average ticket size has grown by 5%

- We insured 6.6 crore lives during FY24

- More than 70% of the retail customers on-boarded are new to HDFC Life and almost half of these are below the age of 35 years

- Sum assured witnessed robust growth of 47% aided by growth in pure term, ROP, higher protection cover embedded in savings products and riders

- With product innovation across product segments, our average sum assured per policy has increased by 33% on overall basis and 39% for savings business

Annuity and protection put together contributed to nearly half of overall new business premium in FY24. Retail protection grew by 27% based on individual APE and we believe that the momentum will sustain into FY25.

Credit protect recorded 13% YoY growth in spite of a cautious lending environment in H2 and increased competitive intensity in certain segments We continue to be a market leader in this segment. Moving forward, we remain committed to pursuing sustainable and profitable growth in this segment.

We remain optimistic about the growth potential of the Annuity segment in India, considering its nascent stage, and believe that the long-term opportunity remains promising. While we observed aggressive pricing strategies by certain peers, we will continue to pursue a balanced approach to growth by enhancing our product offerings and maintaining pricing discipline.

We maintained a healthy balance in terms of product mix with ULIP at 35%, non-par savings at 30%, participating products at 23%, retail term at 5% and annuity at 6%. ULIPs continue to see strong traction driven by buoyant equity markets, with a surge in popularity even in higher than Rs. 2.5 lakh segment. Click2Achieve, our first DIY non-par savings solution has been received well across channels, leading to a healthy increase in the non-par savings proportion in the last quarter.

FY24 has been another landmark year for product launches, fuelled by relentless product innovation. We are committed to delivering products which are relevant and tailored to meet our customers' evolving requirements. This strategic focus was one more reason that enabled us to deliver top line in the prevailing environment, and also helps create momentum for FY25.

Moving onto key financial and operating metrics:
Our new business margins are 26.3% compared to 27.6% last year. The drop of 130 bps was primarily due to 2 reasons, the first one amounting to 70 bps being the operating leverage gap caused by the one-time 1000 cr additional APE received in FY23 due to budget changes and the second one amounting to 40 bps due to higher UL proportion, thanks to buoyant equity markets. Higher product level margin profile on account of longer tenure, higher sum assured multiples and rider attachments has helped us counter the impact of product mix to some degree. The current business mix sets a strong platform for us to continue delivering robust topline and VNB growth in FY25 and beyond.

Our business objectives entail further enhancing our presence across geographies and customer segments and maximising the potential of our distribution channels. In line with this long-term strategy, we will sustain investments in Infrastructure, People and Technology with a forward looking 3-4 year perspective on the business. We believe that VNB growth will continue to be led by APE growth. If we see significant incremental growth opportunities, we will be flexible to trade-off margins while maximizing VNB growth.

Value of new business is Rs. 3,501 crore, implying a YoY degrowth of 5% and a 2 year CAGR of 14%. Embedded value stands at Rs 47,468 crore, with an operating return on embedded value of 17.5%.

We have delivered a strong profit after tax of Rs. 1,569 crore, implying a YoY increase of 15%, fuelled by 18% increase in profit emergence from back book. Solvency continues to be healthy at 187%. The Board has recommended a final dividend of Rs. 2 per share, aggregating to payout of about Rs 430 crore.

Renewal collections grew by 18% YoY, demonstrating our customers' continued trust in us. Persistency for the 13th month and 61st month was 87% and 53% respectively. We anticipate a shift in 13th persistency going forward, influenced by the product mix and prevalent customer segments in FY24. We are committed to maintaining persistency levels across all relevant cohorts.

Next on distribution:

The bancassurance channel has grown 17% YoY. HDFC Bank counter share continues to trend well. We are happy to report that we have ended the year at 63% counter share against 56% same time last year. We maintain close collaboration with all our bancassurance partners to tailor our innovative products, to meet the needs of their specific customer segments. Furthermore, we consistently refine our product offerings, service quality and technological capabilities to enhance our partnerships, ensuring a mutually beneficial relationship.

While the agency channel growth was slower due to a high base last year, it has shown a robust growth of 14% on a 2-year CAGR basis. We are steadfast in our efforts to build capacity for future growth. Our Agency channel is ranked No.2 in the industry in terms of distribution expansion for first eleven months, with over 80,000 agents added during the year. Moreover, we opened 75 branches in FY24 and anticipate our presence to exceed 600 touchpoints in the next fiscal year. Our objective is to broaden our footprint and enhance our reach through a multi-faceted approach, which includes strategically adding branches, attracting high-performing distributors and continually investing in technology and capability enhancement.

Moving on to our subsidiaries

Our subsidiary, HDFC Pension Management Company, achieved a milestone by crossing the Rs 75,000 crore AUM mark, showcasing remarkable growth of 70%. We have maintained our market leadership in the pension category, commanding a market share of 43%.

Additionally, we are actively advancing our expansion plan for the GIFT City business. With the introduction of innovative US Dollar denominated Life and Health insurance products like US Dollar Global Education Plan and Global Student Health Care Plan etc. which are available from GIFT City, we are already making strides in penetrating the NRI segment. Additionally, we have plans to roll out further offerings to continue strengthening our presence in this space.

Next on Tech:

We are currently implementing Project INSPIRE, a comprehensive technological transformation. This project aims to enhance customer, distributor, and employee experiences while increasing operational efficiency. It focuses on faster product launches, flexible partner on-boarding with shorter TATs, digital customer acquisition journeys, intuitive zero-touch servicing, a plug-and-play integration environment, among other features. We are likely to see a gradual rise in technology expenses over the year, which will be accompanied by corresponding benefits to the business.

Moving to key announcements

We would like to inform that Mr Deepak Parekh has decided to step down as the Chairman and Non-Executive Director of the Company with effect from close of business hours on April 18, 2024 to comply with regulatory requirements. Being the founder Chairman of our Company, Mr Parekh has been instrumental in guiding and nurturing the Company over the past 24 years. We thank Mr Parekh for the immense contributions made by him and wish him the very best for the future.

We are also pleased to inform that Board has unanimously approved the appointment of Mr Keki Mistry as the Chairman of the Board. Mr Keki Mistry has been associated with the Company since December 2000 and is currently Non-Executive Director on our Board. Under his stewardship, we aim to achieve many more remarkable milestones and emerge stronger and more resilient than ever before.

Lastly, we are proud to share that we have been recognized as the Best Organization for Women in 2024 by The Economic Times. This is a testament of the progress we have made in creating a supportive work environment for women and our unwavering belief in the power of diversity, equity and inclusion.

In conclusion:

The vast unmet need for protection in our country speaks of a compelling opportunity. We aim to be at the forefront of developing innovative solutions to bridge this gap. We have delivered consistent, predictable and sustained performance by doubling all key metrics over last 4 years and will continue to move ahead with this aspiration while prioritizing VNB growth to build profitable business in the long run.

We also appreciate the efforts of the insurance regulator for introducing enabling measures aimed at broadening accessibility of life insurance, improving customer experience and enhancing ease of doing business.

The detailed disclosure on our results is available in our investor presentation. We now invite any questions from the audience.

Moderator: The first question is from the line of MW Kim from JPMorgan.

MW Kim: Thank you so much for this opportunity. Could you please confirm the timeline of IFRS 17 adoption? Secondly, Page 11 of the presentation and historical product mix would suggest that HDFC Life have differentiated liability reserve structure compared to other private peers. So, my question would be on IFRS 17. Do you expect relatively different CSM release rate or CSM amortization rate among life insurers? And lastly, what could be major tailwind and headwind under the new accounting standard?

Niraj Shah: To your first point on timelines, we are in regular touch with the regulatory authority. We still await directions from the Indian accounting boards, and from IRDAI as far as specific timelines are concerned. Of course, all the companies which were a part of Phase 1 have submitted their GAAP assessment reports and IRDAI would be looking at the readiness of various companies. We believe that this implementation is likely to happen in a phased manner. As we speak today, there is no timeline that we are completely aware of, it looks like it could be in the next 24 to 36 months. That could be one timeline that we could be looking at. But if we hear something different from the regulator, we will keep everyone posted.

Our readiness is going to be ahead of time. We have engaged external experts to be able to transition to the new accounting standard over a period of time. As we speak, are we looking at any significant changes or shifts in our business according to the new standard? We believe not. We do not expect any significant change in the way we conduct our business. To your specific question around business mix and the emergence of CSM, I think it's a little early to answer that specifically. What we would definitely want to do is that once we get more clarity on the timelines, we would want to put some bridging disclosures out in the open to be able to guide you to what you can expect once the new guidelines are implemented.

Moderator: The next question is from the line of Hitesh Gulati from Haitong.

Hitesh Gulati: My question is on the regulatory front. Now with the surrender draft behind us, are we seeing anything more that could probably be in the regulator's mind? Something on the lines of what the finance minister spoke in one of the interviews recently, where she touched upon the topic of insurance misselling. So have we seen the regulator or some notification or some draft that has been communicated on this front?

Vibha Padalkar: Hi, Hitesh. The notified set of surrender regulations, I think those were a good outcome, and while there were a few changes in there, those are not having any material impact on the company. In terms of what else could be out there, here's our view and a lot of our peers also share this view, and this is something that we have engaged with the regulator and continue to do that. Wherever there is misselling, we certainly return money. And I'm sure some of our other peers also do that.

So, we need to get the misselling out of this conversation. Wherever it is other than misselling, where people just say that I wanted something else, I've changed my mind. For those people, I think we have a slightly different view as against the more popular narrative in media that is emerging, because there are no other long-term guaranteed products at all.

So, if somebody wants liquidity after one year, especially discerning customers, and I think we can take a proxy to say if INR1 lakh ticket size is there, then that customer is by no means someone who is unable to understand or in a weak position to understand what is being told to him or her. And there, the dangers are that there is more a flip rather than any other purpose as to why they want to withdraw.

So rather than changing the architecture of the product, for us to have enough guardrails so that people are made aware that if you want early liquidity, and by that, I mean 1, 2, 3 years, then perhaps this is not the product for you. However, if you want certainty of outcomes, especially in your golden years, then it's not very dissimilar to PPF. All of us hopefully have accounts with PPF, and the first time we ever get to see any money is at the end of seventh year and that too, there's a formula, and we are fine with that.

These products are no different. Plus, we have a life cover, which PPF doesn't have and so on. Now worst-case situation, if it's misguided and there's an early exit, then it could change the construct of the product and make it very unattractive and also put the organization at some level of threat because of ALM not being robust enough because of early exits, especially with sharp interest rate movements.

The regulator seized the matter. Also, the fact that early persistency is fairly high in the 90s with the customer. So really, it is a few people who are complaining. We continue to engage at various levels with our regulator. Ongoing dialogues do happen. And the notification has recently come in, and that is where it is at this point in time.

Moderator: The next question is from the line of Avinash Singh from Emkay Global.

Avinash Singh: A couple of questions. The first one is particularly on margins. If I were to look at FY21 and FY24, margins are broadly flat. Within that in terms of product composition, yes, in FY21, par used to be slightly higher, now ULIP has a higher share. But then the scale of operation today is very different, nearly at least 50% higher APE. So, some part of operating leverage could have played out?

While I'm cognizant when I'm comparing margins with last year, but if I look at a 3-year horizon, why despite of scale getting better, annuity segment increasing, protection holding up, margins have struggled? Why operating leverage is not playing out? Or is it something I'm missing in this entire margin picture?

Second, in terms of now looking ahead, I can hear and read what you're saying that now you are going to chase growth even if it comes with some kind of compromise on margins. In this backdrop, at this juncture, given there is more regulatory clarity, what kind of growth you would be looking in FY25? These are my 2 questions.

Vibha Padalkar: You're absolutely right in terms of operating leverage. However, the other angle here is the product mix. While you were speaking, I was just looking at some data. And in FY21, FY22 and FY23, our unit linked business was range-bound, in the zone of about one-fifth to one-fourth. While if you were to look at FY24, it is 35%, so more than a third of our business is now unit linked business. Is that always going to be the case? Possibly not. But we have to remember that we, as a sector, went through a fairly material shift because of the tax change.

And we will slowly start inching up like we have done quarter-on-quarter, in terms of our other than unit linked business. If you were to look at stand-alone Q4 for us, our unit linked business is now comfortably about 30% after being in the mid-20s. So that shift is happening, but it will take some time.

So, it is three-pronged, there is the scale of the business itself, then your unit cost, if they continue to trend southward, which is the case for us, and then the third is the product mix. I think all 3 need to be in the zone for margins to move up. But you will admit that the sector over the last 2 to3 years have gone through a fair bit of change and we also forget COVID in all of this.

So given all of that, I think the fact that at least some of the participants in the sector, including us have not dropped margins below 25%, I think, is reasonably commendable while continuing to steer the company through a fairly tectonic shift in terms of attractiveness and moving a lot more in terms of inroads into Bharat. Two-thirds of our new business that we have written this year has come from non-tier 1 cities. Or another way of looking at it is that while overall unadjusted growth is 1%, growth from tier 2/3 is 13%.

If you were to look at number of policies, it was flat for the last 3 years, which was bothering us to some extent. But if you were to look at this year, perhaps thanks to the tax nudge, we have managed to really grow the number of people that we sell to, and that's a very healthy 14% growth in Q4 stand-alone. Many such data points say that the engine is getting a lot more granular in terms of retail growth and away from only high-ticket cases.

Niraj Shah: Yes, maybe just a couple of things to that. One is if you were to look at FY21 and today, across different segments, one of the challenges has been to maintain inherent margins of each of the segments. And there has been enough examples of that, especially starting with protection. We have seen where protection pricing is versus where we believe it should be especially as we get deeper into India.

While the margins on protection are fairly healthy still, they are obviously lower than what they were 3 to 4 years ago. From a real-world perspective, that's something that we have to acknowledge as a sector.

Also, if you were to look at some of the other product categories, whether it's annuities or non-participating products, there is intense competition as far as rates are concerned. Well, some of us have managed to adhere to some sort of pricing discipline, and that is also visible in direct comparison that you could make.

And that is also a factor of where margins are today versus where they probably were 3 years back, adjusting for everything else that we are talking about, whether it's product mix, or even the scale of the business. You yourself mentioned we are 50% higher than what we were at that time. We have also expanded our resourcing to be able to get to this kind of scale.

And a lot of this investment, especially in proprietary, is upfront. The benefits are coming, but some of them will come with a lag as well. Technology is something that we need to keep investing in every block of 3 to 4 years. That is also something that we don't want to really back out of. We want to ensure that our operating model stays relevant and current, and that also requires significant continued investments.

We are maintaining our margins and have delivered VNB growth of 14% on a 2-year basis and higher on a 4-year basis. That is, in some sense, in spite of a lot of these aspects that are being seen in the market. And while the market continues to grow, these are certain things that we need to acknowledge as well.

Vibha Padalkar: And I want to add there. See, if I'm a bank and I compete, I'm competing with mostly listed banks. That's not the case in insurance for various reasons. So apart from 3 or 4 companies, you don't have listed entities. And the reason I'm calling that out is because there is very little disclosure in terms of actuarial walk, embedded value walk, sensitivity analysis and the rest of it.

So the competitive intensity will only continue to go up until the roadmap to listing starts happening. Are there such plans? I'm sure that there used to be earlier, but that's the natural culmination. So it’s a matter of when and not if that roadmap starts panning out. And there is a little bit more four corners within which most of the senior players operate.

Avinash Singh: And my second question on growth guidance for FY25 and particularly, if you can just give some colour around channels-wise growth?

Vibha Padalkar: We don't really give guidance, except for saying that historically, the private sector has grown in the range of 12% to 15%. So, we should grow at least by that, if not a shade higher than that. And we could comfortably grow higher if you're looking at listed players. But if we were to look at overall, the upper end of this kind of band is what we should grow and VNB should grow, just pre-empting your next question.

All our channels should grow. In my comments, I talked about HDFC Bank counter share. That has already reached 63% in less than nine months' timeframe, since the merger. We will continue to make further inroads. And so that should grow faster than company level growth.

Agency and broking channel that were disproportionately hit on the higher ticket size cases that too with the base reset should grow fairly robustly. Some of the new partnerships that are completely nascent, new tie-ups and so on, that should also grow. So really, all of the channels should do well in FY25.

Moderator: The next question is from the line of Nischint Chawathe from Kotak Institutional Equities.

Nischint Chawathe: I have three questions. First one is on the agency side. Your agency business was down around 11% for the year and almost down 30% in the fourth quarter. Now what we see over here is that ULIP in agency has grown handsomely, but it is the traditional business that is down. We are just trying to understand the trend as to why this has happened. And I believe a chunk of the agency would have come from Exide, which probably was not focusing so much on the high-ticket business. That's the first question.

Suresh Badami: It's not that our agency channel did not have base effect of greater than INR5 lakhs segment. If you looked at our agency institution, there were a fair number of large financial product distributors as well as MDRT distributors who did operate in Tier 1 in greater than INR5 lakhs segment. On a 2-year basis, of course, our agency business has been growing at almost 14%. We see the trajectory over a long run. There has been a 1-year effect on account of the greater than INR5 lakhs segment.

Now there are two-three things, one is we are increasing distribution presence across geographies. We are adding a lot of branches. We are expanding into Tier 2/3 markets. Second, if you look at the number of new consultant additions that we have done, it has been the second best in the industry with more than 80,000 agents. And on your question on Exide, that particular business has been growing. Yes, they may not have been, because they're primarily present in Tier 2/3 and in some of the southern markets, present in the higher ticket size. But there, we are actually looking at a retail NOP growth strategy, where we'll be expanding into many more markets in Tier 2/3 and grow on that basis. It's a question of how does the regular agency grow in terms of the retail penetration, as we expand to Tier 2/3, and in terms of the new agents who are coming on board.

The quality of our top agents who are qualifying for MDRT that has been increasing year-over-year. We do believe that with our focus on new agent recruitment in terms of productivity and product mix, over a period of time, some of the product through agency channel will also correct to the balanced product mix that we normally do.

Vibha Padalkar: And Nischint, to add, if I were to deconstruct in numbers, up to INR5 lakh agency channel has grown almost 8x company-level growth. 8% is the growth in up to INR5 lakhs. The drag has been the above INR5 lakhs, which is why for next year with this base reset, it should get back on its feet...

Nischint Chawathe: Sure. The second question is on new business strain as a percentage of APE, and this ratio has gone up from 34% last year to 40% this year despite the fact that share of ULIP has gone up. I was just trying to understand the trend.

Eshwari Murugan: Strain depends on the product composition and expenses. As we already mentioned on the call, operating leverage in FY24 has seen an impact of expenses which has impacted new business strain. UL has the highest strain because reserves are linked to value of the fund and since UL mix has increased significantly from 19% in FY23 to 35% in FY24 strain is higher. That is one of the main reasons for the increase in the strain from last year to this year.

Vibha Padalkar: And just to add to that Nischint, we are typically capacitized in terms of manpower and our branches to grow between 15% to 18%. But on an unadjusted basis, we have grown 1%. So that's what I think Eshwari means in terms of operating leverage not coming through or in other words impacting the strain on new business.

Nischint Chawathe: Got it. Just a last one on VNB walk trajectory. We can see the fixed cost absorption being negative at around 70 basis points. Is that for the same reason or is it something because of the IT expense?

Vibha Padalkar: Itis the same reason. Just the same INR1,000 crores and the uplift that it has given. I would say for you to triangulate this is, if I were to look at VNB growth last year, the VNB growth in FY 23 in Q4 was 69%.A large chunk of this also came from that INR1,000 crores because we have never grown at 69%.The margin impact of 70 bps out of the 130 bps is just that INR1,000 crores.

Nischint Chawathe: But if I look at the VNB walk last year, even then fixed cost assumption was a negative, when I think your growth was really pretty good.

Vibha Padalkar: That must have been maybe due to Exide Life because we were in the close of the merger and the margin profile was significantly lower than us, post which we have done a lot of rationalization in people and branches. There was also Project Inspire that we talked about in terms of the INR50 crores investment that we did at that time.

Nischint Chawathe: So the question I think essentially is that if this is Project Inspire and it kind of continues for next year, then in all possibilities, there might be a similar track next year. I think that's what I'm coming to or is it that we if grow at 15%, it won't be there?

Niraj Shah: The biggest drag really is in terms of the gap between capacity and actual growth which is that 15%-17% number that we're talking about. If the growth comes back to where we want it to be next year a lot of this number could actually go away. Some part of it will stay because of the continued investments that we do, but a large part of this drag is going to be addressed by the growth coming back in FY25.

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Moderator: The next question is from the line of Sanketh Godha from Avendus Spark.

Sanketh Godha: I have three questions. So, the first question, Vibha, you said that you will grow broadly in line with private sector, which you expect to be 12%-15%. But given we are at 63% market share in HDFC Bank and potentially it goes to 70% next year, then ideally your growth guidance or growth expectations should be better than private sector. I just wanted to understand that your growth will be around 15% or it could be better than that because of the market share gain in the bank? That's my first question.

Vibha Padalkar: It's very difficult to know on a relative basis as somebody else might have had some other tie-up with some other bank and so on. And that's why things will unfold as we see some of the other relationships. But yes, as far as we are concerned, –our growth expectation in HDFC Bank is clearly like you articulated.

And in other channels, as we discussed in a couple of earlier questions, given agency rebasing and some of our other channels like direct channel rebasing, some of our newer partnerships beginning to take shape, it should be, but relative growth becomes difficult to know.

Sanketh Godha: Okay. And the second question is, you made the initial remarks that you are okay to trade off margins for growth, then related two questions, which means that you will be okay to breach ULIP more than 35% of the total APE which is what you have today. And if ULIP grows, as you highlighted, it creates new business strain then do you expect the solvency should go further down or it will cap your ability to sell ULIP even if the demand is there?

Niraj Shah: So Sanketh, I think on unit linked even while it is at 35%, historically for the past 5 years it has been in the 20%-25% zone. So can ULIP be higher in a particular quarter? The answer is yes. Was it higher in Q4, if you were to look at the full year numbers, 35% versus 19% of last year, obviously, Q4 ULIP was higher. So that is mathematically the situation.

We have also maintained that we don't want to micromanage this on a quarterly basis. We definitely want to take cognizance of the demand, where it is coming from and whether we can actually balance our objectives in terms of can we sell more protection on unit linked? Can we sell more riders? Can we improve persistency? Can we just inherently increase the margin of all our segments? That is something that we would focus on.

We are not too fussed about where it goes to in a particular quarter. But over a period of time, we definitely want to still maintain, between our savings products anywhere between one-fourth to one-third across each of the segments.

And just again, a slightly different point, but on the same issue is that there are a lot of perceived headwinds against non-participating products in this period, but our product mix on non-par has actually moved to mid-30s in this period, much higher than what it was in the 9M period.

That tells you that there are ways to get to a particular outcome, keeping in mind the overall demand drivers in the market. As such, we would like to maintain a fairly reasonable window within which we will have each of these segments coming in.

Your question on solvency, again, like Eshwari mentioned, each product category has a different dimension. Unit linked products will have a much higher requirement given the base on which it is calculated, but also the capital requirement is for a shorter period compared to for non-par or for participating products.

So, some of these things do balance each other out. In certain products, which are more profitable, you need to hold more capital for a longer period of time. Certain products like unit linked, which in our case are relatively less profitable, you need more capital at inception, but that capital requirement comes down over a period of time. We would obviously want to maintain solvency which is in a good zone, and we have managed to do that all things considered.

Sanketh Godha: The reason I was asking that question is that if the market remains as buoyant as they are today and ULIP demand remain persistent then whether your solvency will cap growth because demand is for that particular product in that sense, as it is in the current year.

Eshwari Murugan: While solvency requirement will be dependent on the mix, it is not that if ULIP is going to be at a very high percentage, the requirement will increase exponentially, because as we discussed there are different influences. On unit linked, the requirement for capital is lower compared to non-par. So the requirement itself is lower at the start and then because of persistency being lower compared to non-par, the trajectory of the requirement of capital is going to be lower.

So it will balance it out, and we don't expect it to be a big strain on growth, especially since we are at 187% of solvency. There's a good cushion between the minimum required of 150% by the regulator and 187%. In rupees crore, it's a very big number because our actual solvency in capital we have is around INR 15,000 crores. That gives us the comfort that it does not restrain growth even if ULIP mix had to go a little higher.

Sanketh Godha: The last question from my side is that, the revised surrender norms are definitely watered down, but definitely, it has some impact on two products, especially the limited five pay non-par and to some extent, deferred regular pay annuity.

Just wanted to understand how much five pay contributes to our total premium and deferred regular pay annuity contributes to total premium, given it is linked to EOM, the SSV? Just wanted to understand how much portion of the business is linked to it and how can you transit it to, say, seven pay, eight pay or ten pay to overcome this problem if it is there?

Niraj Shah: Sanketh, while the allowance is based on the premium paying term, it is also based on product category. In that sense, now in terms of various segments that we have, whether it is par, non-par and unit-linked, the product commercials are different across different categories.

The EOM allowance is also something that is managed at an overall level. It doesn't become a critical point in managing growth or expense ratios. So the EOM allowance is something that gets managed at an overall level, as you know, between par and non-par. Within non-par, you have different categories, you have unit-linked on which the commercials are very, very different compared to some of the other product categories which are sold at the longer end.

Significant portion of our non-unit-linked business comes at PPTs which are 8 to 10 as well. A lot of this balancing happens within channels who have a different premium paying term mix. At an overall level, we are able to optimize to get to the answer that was required.

Sanketh Godha: But Niraj, would you be okay to quantify how much five pay non-par contributes to our total APE and how much deferred regular pay annuity contributes to total APE?

Niraj Shah: I can tell you that as far as non-par business is concerned, different channels have a different mix. Banks would typically sell something which is relatively shorter pay compared to agency. Agency, direct, brokers, large part of that business would be sold in the long-term premium paying mix. There is a healthy balance of all of these categories. We wouldn't want to specifically call out because it's fairly dynamic. As far as regular pay deferred annuity is concerned, it is a fairly small segment so far. And again, there is a fairly good balance between shorter pay term and longer pay term. It's a recently introduced category, and it's a fairly small portion of our business as things stand today.

Moderator: The next question is from the line of Shreya Shivani from CLSA.

Shreya Shivani: Thank you for the opportunity. My question is going back to growth. You mentioned that Tier 2/3 cities have seen 12%-13% growth. Now I remember from last conference call you had mentioned that it will take you at least 12 to 18 months for some of these partnerships that you are making in these geographies to start delivering on numbers.

So just wanted to understand that Tier 2/3 cities growth of 12%-13%, how much higher can it get and will it be more towards FY26 rather than in FY25 because that would be in the timeline of 12 months to 18 months that you were mentioning.

So is it that in this year the main trigger for growth would be HDFC Bank counter share increasing? And expansion in smaller geographies of Tier 2/3 cities will actually start delivering probably from second half or the exit month of FY25?

Suresh Badami: So two parts to it. One, of course, HDFC Bank has a clear SURU market growth strategy and so do many of our other large national banca partners. There are a lot of partners whom we added are present in Tier 2/3 and regional geographies.

That has started coming into play. Even outside HDFC Bank, a lot of our other banca corporate agent partners have grown faster, in the range of 13%-15%. So that has already started playing out for us this particular year and a lot of that has come from Tier 2/3.

But it's not that it will all come only in FY26. Some of it has started playing out. Composition has grown by more than 10% this particular year in Tier 2/3 markets and like we mentioned it is more a retail NOP growth strategy. To your second part, we will increase our market share at HDFC Bank.

We have to work for it, and if it grows from 63%, if bank grows and we are able to increase our market share, that will give us overall growth as far as the bancassurance is concerned. On top of that, we do believe that our agency and broking business have base effect because greater than INR5 lakhs has now gone off for this particular year. Both those channels will also grow.

And third, Tier 2/3 market in terms of products and distribution expansion, including 75 new branches that we are looking at expanding, that will also add. That may probably take 12 to 18 months for us to deliver in terms of agency build up in these markets and hence the business volumes coming in.

But there are actually three to four lines of businesses which are helping us build the Tier 2/3 business and they are all phased out.

Vibha Padalkar: I'll just add to that. We were also surprised, that if I were to look at growth in protection, Tier 1 has grown 26%, Tier 2 has grown 22% and Tier 3 has grown 32%. And the ticket sizes are just a 10% differential between each of the tiers. If I look at each one of these different segments the growth from non-Tier 1 is healthy and the ticket size isn't that different because we are going after the upper quartile of Tier 2 and likewise for Tier 3.

And then there is, of course, SURU which Suresh talked about of both HDFC Bank and other banks. But equally important is our strategy for agency. For example, of the new agents added, the 80,000 agents added 85% to 90% of those agents are from Tier 2/3. Of the 75 branches that we have opened last year a significant portion similar kind of percentage is in Tier 2/3.

All of that means that we are somewhat agnostic of channel. The channel if you visualize is the vertical and the horizontal cutting across are Tier 2/3 opportunities. So it will be fairly widespread across channels.

Shreya Shivani: If I could summarize in one line probably banca delivery on growth in these cities will be faster. Probably agency may be more towards second half of FY25. Does that summarize properly?

Vibha Padalkar: I'm hoping that agency starts off on Q1.

Moderator: The next question is from the line of Suresh Ganapathy from Macquarie Capital.

Suresh Ganapathy: Just two questions. Vibha, is it possible to get product level margins? One of your peers discloses it. So can you at least do that on an annual basis?

Vibha Padalkar: Each channel and each product has a very different outcome. And we have 300 partners. So it is not that simplistic, example stating that term business has this margin because what margin I make on term business depends on what are my commercials with that partner and what is the mix with that partner.

I think once we have some of the same peers also disclosing very clearly what is par and non-par or what is credit life and retail, then I think we'll have those discussions.

Moderator: The next question is from the line of Vivek from Aditya Birla Capital.

Vivek: The first question is on credit protect business. What is the percentage growth in credit protect year-on-year and the second question on that is since the business in GIFT city has been mentioned during the call, do you see any potential in credit protect business in GIFT city??

Suresh Badami: So yes, 2 parts. The credit protect business grew by 13% for us in this year, which is fairly good, given in Q4 we did see some kind of a slowdown in disbursements. All our partners remain intact in terms of our partnerships. There have been some segments where we have gone up, some segments where we have gone down, but overall we continue to retain market share that we have on the credit protect business.

On your question on GIFT City, yes, there is an opportunity down the line. Right now, all the products that we are looking at are in terms of individual dollar-denominated products. But tomorrow if there are banks which set up their branches out of GIFT City and they look at it, we will definitely look at similar product structures there. There are products that we will be looking at once U.S. dollar loans start coming from GIFT City.

Vivek: Do you see any potential in group term in GIFT City? Are you going to target any market in that?

Suresh Badami: We have very small market in terms of what we are looking at because the employee base which is there in GIFT City, it's similar to what we have at DFSA. So it will be a very marginal business, in any case, it's hard fought for us. We are not targeting that as a particular product now. We do believe savings will help us grow in that particular market. And it is the education plan, some products on health, some products on travel. That's the kind of opportunity we're tracking given the segments are available internationally and where we believe we'll be much more competitive than anyone.

Moderator: We'll take the next question from the line of Suresh Ganapathy from Macquarie Capital. Please go ahead.

Suresh Ganapathy: So my question is just on VNB outlook because I was looking FY17 to FY22, broadly the industry as well as you guys have grown between 20% to 25%, right? So it's been a good VNB trajectory and now we are talking about 12% to 15%, right? And one of your peers reported a

23% margin and they're arguing now, in the revised EOM environment that is the margins at which maybe the industry might operate considering the pressure from all directions.

So how are you looking at this? Because even you at the start of the call, Vibha made a statement that there is a trade-off between growth and margin and we will let go off margin to get growth, right? So are we really looking at a lower VNB growth this cycle? And do you think margins can really go down considering the way the industry is evolving now?

Vibha Padalkar: I want to clarify a couple of things. One is that, we want to hold VNB growth very similar to APE growth. The limited point I'm making is that there will always be something or the other that's happening, either a macro event, war is there or swing in equity market. I don't want to not engage with the customer when the customer wants to buy something, that's the limited point.

I would like VNB growth while growing top line faster than the overall industry. That's the objective. But are we looking at completely yo-yoing on margins, where in you're talking about lower by 300-400 basis points in one quarter, I don't think so. That's not what I'm saying. I'm saying little bit here and there. We will seek that flexibility so that we are able to engage with customer and don't turn away the customer to say, okay, you don't meet my margin threshold and so I will not sell you a policy, that's the limited point that I'm making.

Holistically, we want to grow, like I said, 12% to 15% industry growth, on the upper end of that or a shade more than that would be a good place to be. VNB in similar kind of zone, return on embedded value in the 17%-18% zone, which we have again delivered. I think that kind of a holistic growth as a scorecard is what we're looking at.

Suresh Ganapathy: So Vibha, protection margins are 4x to 5x that of the other product margins. And if indeed the narrative on protection is strong, why this complete U-turn? This is not for you specifically, in general the industry is struggling to improve margins despite those products having better opportunity and 3x to 4x the margin potential than other products?

Vibha Padalkar: This is what it used to be. Over the last four years, it has changed completely. Given almost irrational pricing, competitive pressure on pricing, especially through aggregators on protection, it is a very different game today. INR1 crore cover in India is cheaper than a INR1 crore cover in Hong Kong or many other geographies. How is that possible?

I also mentioned that unlike in banks, insurance companies are largely competing with unlisted players with next-to-no disclosures. This will move and grow into a sector wherein either one lists or there is a road map or there is disclosure that are similar to listing. Something will happen.

And with that, that will rein in a lot of exuberance and aggressiveness on pricing, both in term and annuity, we're seeing on both ends and hence we need to stay focused on building profitable business. And we continue to do that, which is why perhaps we are not the cheapest because if I were to cut my prices by 30%.I will definitely have 0% margin, best case scenario.

Because of this competition, the kind of multiples that you're talking no longer exist, that's the fact.

Will it come back? I think I'm of the school of thought that it will come back in terms of rationality in pricing due to the reasons that I mentioned. But today, it is not there. And so we need to sustain this competitive intensity for now until margins are climbing back again.

Niraj Shah: Just one point to add here. An earlier caller, MW Kim, had asked in the context of IFRS and IndAS, how can things change? So while I said we don't expect to change the way we do our business. What is definitely likely to change at an overall sector level, is that contracts or business which is priced upfront at negative margins or at very low margins and coinciding that with risk-based capital that will also come in during this period, it will be extremely difficult for someone on a sustained basis price or misprice products and look at only top line.

So the whole definition of top line itself will change and evolve as you are aware, going forward. Unfortunately, protection margins are not where they should be. I mean, that's something that we would have liked it to be the case like it is in all other parts of the world. It is not the case in India. So that's really the reality right now.

Suresh Ganapathy: Just for our understanding, is it possible to at least tell the magnitude of difference between, say if you had a protection margin of, say, x% 3-4 years ago, would that be down by 10% or 20%? Just a rough number would also be great.

Niraj Shah: Protection margins, 4-5 years back used to be in three digits. Now it is much higher than company average margins but nowhere close to where it used be.

Moderator: The next question is from the line of Harshit Toshniwal from Premji.

Harshit Toshniwal: The margins on protection have been slightly lower. But despite that, at an overall level as an industry and as a company we have all been able to maintain that margin in the 26% to 27% range. And even if I look at Q4 despite the ULIP mix increase, the drop in margins has not been very significant. So wanted to get a sense that ULIP margins at a stand-alone product level, how much has that improved? And also due to the fact that probably the approach of HDFC Bank towards HDFC Life that has also evolved over the last 2-3 years. So apart from just the wallet share shift, is it also that the product level margins in that channel is something which are more in line to the overall structure, which we would have wanted to be?

And to that point, which you mentioned that in a market like this, demand is something which is not controllable. Probably last 2-3 years, we saw very good phase for ULIP and staying away from a particular product might not make sense in this kind of an environment. So rather than controlling the product mix, basically ensuring that individual product margin keeps on improving. So just wanted to get your thoughts, that ULIP as a product, how has that changed us for the last 2-3 years?

Vibha Padalkar: We do see every segment continuing to give higher margin. For example, in participating products, we would urge our channels to sell for longer term, even toggling between what is the level of sum assured versus what is the bonus that we give.

We do believe that we are right up there in each of the segments because we are really granular on how we're not leaving money on the table unnecessarily and are also good for the customer. So that's what we have done on par. To your question on unit linked, today some of our products, for example, Smart Protect has a 100x cover, so not that all policies we sell are 100x but it is for those that want a one-stop solution.

Also, we are able to get much better unit-linked margins than otherwise. If you were to look at steady improvement in persistency, that has helped because we do change our actuarial assumptions and mark-to-market it. If we see a positive trend in persistency, we wait for two years. But after two years, we do change the inherent assumptions and then new business also will get that uplift on the change in assumptions.

Many such reasons that help us in goal seeking in a way for margins and that has become a DNA of the organization. We also have channel CEOs who have to balance their top line and bottom line. If they want to sell more unit linked, it could be through something like Smart Protect, it could be through attachment of riders, it could be productivity improvement on costs. It could be many such things, all the technology investments that we are doing, wherein we need lesser people. It's a combination of all of these things and term, of course. And term has been steady, we have grown 27%. We have also grown in the 50s in terms of sum assured, which clearly means that we are covering higher levels of mortality by various mechanisms. And all of that is margin accretive.

Harshit Toshniwal: I understand that you are saying that the DNA has shifted towards improving product level margins. And so somewhat like a ULIP, which probably at some point had single-digit margin. Is it fair to say that now it is not that case that is the market is expecting that product to be sold in greater proportion?

Then we are not running that race single legged because of some factors. I am just trying to understand that in order to mould ourselves to what the market demands, the profitability of each of the products at ROEV level should be competitive enough. Wanted to check that in the previous avatar a lot of things on the distribution part restricted the margins on ULIP as a product. Has that changed very specifically?

Vibha Padalkar: Yes, we have a lot more levers for us to be able to deliver margins in a particular zone that we have consistently operated in. And I don't want to reveal all of it. But suffices to say that, for example, our product committee meets every fortnight to really look at not just high-level par, non-par and so on but many, many nuances of what is selling, to which channels, at what cost of acquisition, where are we leaving money on the table by not cross-selling, attaching, and many such things. It's really a nuanced approach that is looking at both top line growth and bottom line. And we don't do it only at a corporate level, it is done even at a decentralized channel CEO level.

Harshit Toshniwal: Understood. One last question. This is from regulator’s perspective. When we look at insurance as an industry, there are effectively 5-6 types of products which we have been selling from a long period of time. Probably the regulator now intends to look at each product through a different lens, try to see whether it fits the customer, etc.

More from an industry point of view, can adding new products, so somewhat there have been talks of composite, but I'm thinking that even within savings, do you think that industry as a whole needs new products beyond the current ones, which are typical structures, under which we are selling insurance?

Vibha Padalkar: Absolutely. And that is there in the regulatory review report. We are part of that, along with many other peers. I'll give you an example. Earlier there was a caller asking about our GIFT City products. Now we have a dollar-denominated education product, which is approved by the DFSA. And there, you don't necessarily need to have a 10x cover. You could have, say, a 5x cover because your objectives might be different or you might already have some level of insurance and that's not what you're looking for today.

It's not zero but it doesn't have to be much higher levels of insurance. There are tweaks like that or it could be wherein you could take a premium holiday without necessarily lapsing your product because there are some constraints that you have on the financial front. Many such things within the existing avatar can certainly be done to expand the pie by offering flexibility and it is already there as a series of recommendations to our regulator.

Moderator: The next question is from the line of Dipanjan Ghosh from Citi.

Dipanjan Ghosh: Just two questions from my side. First, on Tier 2/3 markets. If you can kind of give some color on what you think could be the right strategy to win in this market, be it for HDFC Life or any other competitor? Will it be a distribution strategy or the product innovation strategy? And in that context, if you can give some color on the split of the 13% growth that you have seen in Tier 2/3 between maybe the specific product cohort, like you mentioned that retail protection was probably 20% or 30% in some of the geographies.

And secondly, if you can just give what was the contribution of HDFC Bank in your individual business for the year or if you can give the contribution in your overall business?

Suresh Badami: I'll answer the third one. In HDFC Bank we have gained fair market share. There has also been a little bit muted growth because of the high base in our broking and agency. We have hit almost 52%-53% kind of contribution on the individual business from HDFC Bank. It is still fairly diversified because we have many other partners. But given our focus on proprietary, given our focus on some of the alternate channels as well as other banca partners who are supporting us, it will probably go up and down a little, even if HDFC Bank were to grow the next year..

On your question of right strategy to win, frankly, it is a very competitive market. I think every key lever falls into place, especially with somebody like even an HDFC Bank who is looking at what is the right composition which is going across to the customers. So right from in terms of the product, the IRR, what kind of operational efficiency is coming in, we constantly benchmark ourselves in terms of where do we stand in terms of operational efficiency, product IRR, resources on the ground, training and capability.

And we do believe that there are many such innovative things that we can bring in the market, where we add value to all our partners. Whether we can come out with propositions like the GIFT City, whether we can come out with deferred annuity kind of a product, our Click 2 Achieve as a product, has had a huge advantage in terms of the innovative product or the customized solution that we are able to bring.

So really, it's a question of how do we go back and benchmark ourselves across each of these parameters and make sure that we are number one or at the worst number two as far as the value proposition to each of our partners is concerned.

Dipanjan Ghosh: If you can share break-up of the 13% growth in Tier 2/3 between maybe some product cohort?

Suresh Badami: The same set of products at different ticket sizes have been moving across both the Tier 2/3 markets. We do believe that there is a segment within Tier 2/3 because they are fairly less underpenetrated. But yes, the less than INR5 lakh cohort in Tier 2/3 markets have seen a much faster growth because of NOP penetration that we are able to get into each of these markets.

The Tier 3 has, for instance, grown at almost 17%. Tier 2/3 overall has grown at 13%, faster than the industry level growth. So those advantages are clearly coming in. But the less than INR5 lakhs has been growing in high teens. Our NOP growth also has been in the mid-teens in each of these segments.

Moderator: The next question is from the line of Madhukar Ladha from Nuvama.

Madhukar Ladha: I wanted to get a split between the high-ticket size and the low-ticket size on total individual APE for FY24? And my second question would be, we see that the economic variances are about ~INR 1,300 crores. What is the split between fixed income and equity there?

Niraj Shah: On the first one, we had mentioned at the beginning of this year, just after the budget that the impact we see is that greater than INR5 lakh used to be around 12% of overall APE and today, the same category is about 6% to 7% of our business. It is definitely lower than what it was last year but it is still a fairly significant number. And that is something that we expect to continue as we go forward as well.

Niraj Shah: On economic variance break-up. That is primarily due to equity. Out of the INR1,300 crores, INR1,200-odd crores is due to equity. The rest is due to the lower yields in this period compared to the same period last year.

Madhukar Ladha: Understood. And just on 6% to 7% high ticket size, what would be the composition, which product categories actually contribute to that?

Niraj Shah: These are all traditional products, non-unit linked. If you include unit linked in this, the mix would be even higher than 6% to 7%. We're only referring to the affected category, which we spoke about in the context of last year. Also, what you're seeing is, in this period, I was referring to an earlier conversation about our non-par mix having gone up in this period to the mid-30s from less than 30% in the nine months period. A large part of that is due to one of the new product launches that we have had, which has also helped us garner business in high ticket size as well, in spite of where we are, as far as the tax regulations are concerned.

Moderator: The next question is from the line of Prayesh Jain from Motilal Oswal.

Prayesh Jain: On the Tier 1/2/3 that we spoke about, any thoughts you can share in terms of how has the experience been there with regards to mortality, persistency, any of those parameters? And how should we look at it from a medium-term perspective? And secondly, on your overall product mix, how would you look at something like a protection or annuity going ahead?

Although protection margins have come off but still they are significantly better than company level margins. If the share of protection and annuities can go up next year, you can see some margin bump up. So just trying to understand that how these two products are likely to shape up in FY25?

Vibha Padalkar: Protection clearly for us has been growing well. And when you triangulate that with the level of sum assured, so we should, despite us not necessarily playing the price war, it should grow faster than overall company level. And we are happy that the retail sum assured has grown just shy of 50% and retail protection on a stand-alone basis has grown by 27%. While some of it was based in fact in the first three quarters. But even in the fourth quarter, we have done okay.

So that trend of growing faster than company should certainly continue, thereby giving us the margin uplift. And more than the margin uplift, it is core to insurance and we want to grow more of that. 4% has become 5%. And this is inching up, in terms of percentage of APE should happen.

In terms of persistency, what is again heartening is that the difference between Tier 1 and Tier 2, is maybe 300-400 basis points and again, between Tier 2 and Tier 3 is thereabout. So it is not in the late 60s or early 70s. So that's how it is panning out because, again, we're not throwing caution to the winds and wading into profiles that we don't understand.

There are a lot of filters. And like I've mentioned earlier, that we are looking at the upper quartile in a Tier 2/3. So that we are being very selective of where are we going in terms of the places, it could be a small industry, it could be a missionary or it could be a school. It could be something which is generating a certain income and certain section of the population is dependent on that income-generating activity.

Prayesh Jain: The point that I was wanting to ask was, if the same product is sold in Tier 2/3 via the same channel, say, for example, HDFC Bank sells a ULIP product in a Tier 2/3 and HDFC Bank then sells it in Tier 1, would your margin be any different?

Eshwari Murugan: While the Tier 1/2/3 will play a role in the persistency as well as mortality experience that is not the only parameter. The other parameters like, at what level of underwriting they have taken the risk on board, what is the income level, what is the ticket size or sum assured and what products. All those things influence the experience and we look at the experience of all these parameters and we factor that in the calculation of the margin.

Whatever products are sold in predominantly in this segment, all those products have the actual experience captured in the margin. For example, in a Tier 2, in a certain ticket size, the persistency will be better than a lower ticket size in a Tier 1. So those elements, and nuances are what we are referring to. It is not a very clear differentiation only between the tiers or only differentiating basis one parameter.

Vibha Padalkar: See right now, it is largely margin neutral because it is more that profile of a human life is choosing to live in that particular place as against living in a top 10 city. That is how we are seeing it and so not huge difference. Over a period of time, we will get nuanced wherein it is possible that we might introduce these four products and we are working on that, in Tier 2 with a higher charge extraction to take care of higher mortality and or relatively lower persistency experience. As the volumes start picking up, it is possible that we'll look at that as well.

Moderator: The next question is from the line of Supratim Datta from Ambit Capital.

Supratim Datta: Could you let us know what is the contribution from non-HDFC Bank partners to the APE? And what would be the 2 or 3 key partnerships here? And given this is a fairly competitive channel which has seen commissions going up after the new EOM guidelines coming in, what are growth aspirations in this channel? That is one question.

And second question is that you seem to be very confident around protection growing. But when I look at your retail protection, the growth has been slowing for the last 2 quarters now. So just wanted to understand, is there anything specific to these 2 quarters and that should reverse next year? Or why do you think that this growth should accelerate going forward?

Vibha Padalkar: I'll take the second part. On the term, it is really because of the base effect, nothing else. If you look at Q44 term, of last year, it had grown higher. Otherwise, in rupee value, quarter-on-quarter, you'll find a steady growth.

Suresh Badami: On your specific question on what is the non-HDFC Bank contribution in terms of the other banca channels, it is 12%-13% of our overall business. But then a lot of our large partnerships have also come on board over the last 2-3 years. We're still making forays in terms of market share as well as our presence across each of these partners. For instance, even last year, we added Karnataka Bank and Karur Vysya Bank. Our partnership with YES Bank and some of them are growing stronger. Some of the earlier partnerships with IDFC, RBL, Saraswat, they continue to remain strong partnerships for us.

Supratim Datta: And just if I could ask what was this 12%-13% mix, say, around 3-4years back?

Suresh Badami: So it has not shifted dramatically because at one end, HDFC Bank has grown in contribution. And so the denominator has grown because we have gained significant market share there. Secondly, the proprietary focus also is helping us grow. Like we mentioned, our agency business over a 2-year period has grown by 14%, has been growing faster than industry over the last few years. So really, we do look at each one of them in isolation in terms of growth year-on-year but we do believe that the bancassurance partners are growing at around 10% plus also year-on-year.

Niraj Shah: Also what has happened is that HDFC Bank, this year, has grown faster than our other bank partnerships. But over the last 3 to 4 years, the contribution of other banca partners has almost doubled to the overall banca business. So it used to be in single digits till a few years back but lot of these new partnerships that we spoke about have scaled up in this period and they are now contributing to almost 20% to 25% of our bancassurance business. If you were to just normalize for the HDFC Bank business growth in this period.

Moderator: We will take our last question from the line of Swarnabh Mukherjee from B&K Securities.

Swarnabh Mukherjee: A couple of questions. First one on the growth versus margin. So last year, you had highlighted that you were capacitized to grow by 17%-18% but since you expected around, say, a mid-teens kind of a growth, so there was a kind of impact on margin that was expected. Where are we this year?

So are we again kind of budgeting in a cost structure for 17%-18% growth and given the fact that you are guiding for kind of a 12%-15% industry growth and maybe little bit ahead of that. Is there a risk of shortfall from that 17%-18% number and consequently there could be an operating deleverage as we progress in the year, should we kind of think of such a risk thing playing out on the margins this year also? So that is the first one.

And second, in terms of the 13-month persistency, in the initial speech, you had highlighted that you expect some shift in that, so if you could maybe elaborate on that a bit.

Niraj Shah: So to your first question, in terms of where we are headed in terms of growth for FY25 and consequently, the margins. We are expecting the sector to grow in this range, 12%-15%. We expect to grow at the top end of that range and hopefully faster. We are not targeting a margin expansion in this period. We are definitely continuing to see competitive intensity. We are continuing to see our distribution expansion happen, our resource allocation increasing.

All of those things will, in some sense, counterbalance each other. We are definitely targeting a similar VNB growth to the top line growth that we have, which, in some sense, implies margins to be in the zone that we are at this current point in time.

Let's say, the product mix becomes more margin accretive or we are able to extract more segment level margins, we will evaluate ploughing some of that back to get growth as we have discussed, something very similar to what has happened in quarter 4. We have seen unit-linked mix go up. We have taken that growth on board without significantly diluting our margin profile. These are some of the trade-offs that we have spoken right through this call and that is where we are.

And linking it back to the VNB walk that we spoke about earlier on the call as well, significant part of that 130 basis points is coming out of that operating leverage gap because of the difference between the capacity and the actual growth. We do not see that repeating in FY 25 because we expect growth to come back fairly strongly in FY25. So that is something that will only be balanced by our continued investments. that's the only factor that we will talk about. Product mix will, of course, evolve. We are at a reasonable balance at this point in time but we will retain the flexibility to evolve the product mix based on how the market shapes up.

To your second point on persistency, what we have been talking about is in the context of our expansion deeper into the Indian markets. We did speak about persistency across the 3 tiers being different by about 300 to 400 basis points at the 13-month level, not dramatically different. All of these still put us in the 80s handle, even in Tier 3 market, exactly because of the ticket size at which we are operating in.

We will task ourselves with improving persistency on a like-to-like basis but the mix effect will be something that we will not hold as a constraint to growing profitably. So if the contribution from Tier 2/3 keeps increasing, can it have impact on the overall headline persistency? It could, but that is something that we would price into our business model.

Swarnabha Mukherjee: Understood. So this shift that you are expecting, so would we expect any kind of impact in our, say, operating assumptions in our VNB because of this?

Niraj Shah: End of every year, we do review our assumptions in line with our actual experience and we do reset that at the end of review every year. We have done that in our EV walk this period as well as you can see. This is basically, in some sense, anticipating what we are likely to see in the coming year.

Swarnabha Mukherjee: So that's already baked in, if I understood correctly.

Eshwari Murugan: So in VNB walk you can see a 0.2% impact on the margin due to assumption change. Some of the difference is already baked in.

Moderator: I would now like to hand the conference over to Ms. Vibha Padalkar for closing comments.

Vibha Padalkar: Thank you everyone for joining today's call. It was good interacting with all of you. Please feel free to reach out to our IR team in case of any further queries. Thank you and good evening.