

July 11, 2023

HDFC Life Insurance Company Limited: Update on Material Event

Summary of rating action

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

*Instrument details are provided in Annexure I

Rationale

Material event

On June 30, 2023, Housing Development Finance Corporation Limited (HDFC) announced the completion of its amalgamation with and into HDFC Bank Limited (HDFC Bank; [ICRA]AAA (Stable)/[ICRA]A1+) with effect from July 1, 2023. Moreover, with requisite regulatory approvals for increasing its stake above 50% in HDFC Life, HDFC acquired an additional 1.69% stake in the company from the secondary market, thereby increasing its stake to 50.33% as on June 30, 2023. Pursuant to the amalgamation, HDFC Life became a subsidiary of HDFC Bank with effect from July 1, 2023.

Impact of the material event

ICRA's rating for HDFC Life derived support from its parentage in the form of HDFC, which was the majority stakeholder. Post July 1, 2023, HDFC Life is now a subsidiary of HDFC Bank. Given the strong credit profile of the bank, the change in parentage has no impact on HDFC Life's credit rating. HDFC Bank is the largest distributor for HDFC Life, and currently sources ~45% of its individual new business premium. With HDFC Bank now becoming the parent, there is likely to be closer alignment, in terms of distribution. Although the bank operates under an open architecture and does not have an exclusive agreement with HDFC Life, the company's share in the life insurance business distributed by HDFC Bank could improve further.

HDFC Life's capitalisation profile was comfortable with a solvency of 2.03 times as on March 31, 2023 and it is unlikely to require any capital infusion in the near to medium term. ICRA, however, expects support from HDFC Bank to be forthcoming if required.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description and the liquidity position: [Click here](#). The rating sensitivities have been revised.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating or the outlook could be revised if there is a deterioration in the credit profile of HDFC Bank or a decline in the strategic importance of HDFC Life to HDFC Bank or in the expectation of support from the promoter. In addition, a decline in the company's solvency ratio below 1.70 times on a sustained basis could lead to a rating downgrade.

Analytical approach

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

About the company

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

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

Key financial indicators (audited)

	FY2022	FY2023
Gross direct premium	45,963	55,924
Income from investment and fees [^]	19,216	12,809
Total operating expense	7,553	10,830
PAT	1,208	1,356
Total net worth ^{@@}	15,486	12,987
Total policyholders’ + Shareholders’ investments [@]	1,23,549	1,59,580
Operating expense ratio [§]	12.4%	14.7%
Return on equity ^{&}	7.8%	10.4%
13th month persistency ratio	87.5%	87.5%
61st month persistency ratio	54.0%	52.3%
Regulatory solvency ratio	1.76	2.03

Source: Company, ICRA Research; Note: Amount in Rs. crore; All calculations are as per ICRA Research

[^] Includes other income; ^{@@} Net worth includes fair value change account; [@] Investments exclude linked investments

[§] Total operating expenses to gross premium written; [&] Return on equity is calculated as profit after tax divided by closing equity for that period

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Amount Rated (Rs. crore)	Amount Outstanding as of April 20, 2023 (Rs. crore)	Date & Rating in FY2024		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
				Jul 11, 2023	Apr 21, 2023			
1 Issuer Rating	Long Term	-	-	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2 Subordinated Debt Programme	Long Term	600.0	600.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3 Subordinated Debt Programme	Long Term	350.0	350.0	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)	-	-

Complexity level of the rated instruments

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

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

Annexure I: Instrument details

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

Source: Company

*The company has a call option exercisable five years from the date of allotment and at the end of every year thereafter before the redemption date

Key features of rated debt instrument

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

- » Servicing of interest is contingent on the company maintaining a solvency ratio above the level stipulated by the regulator¹
- » If the interest payouts lead to a net loss or an increase in the net loss, the prior approval of the regulator would be required to service the debt

Annexure II: List of entities considered for consolidated analysis

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

Source: Company

¹ As per IRDAI, insurers are required to maintain a minimum solvency ratio of 1.50 times

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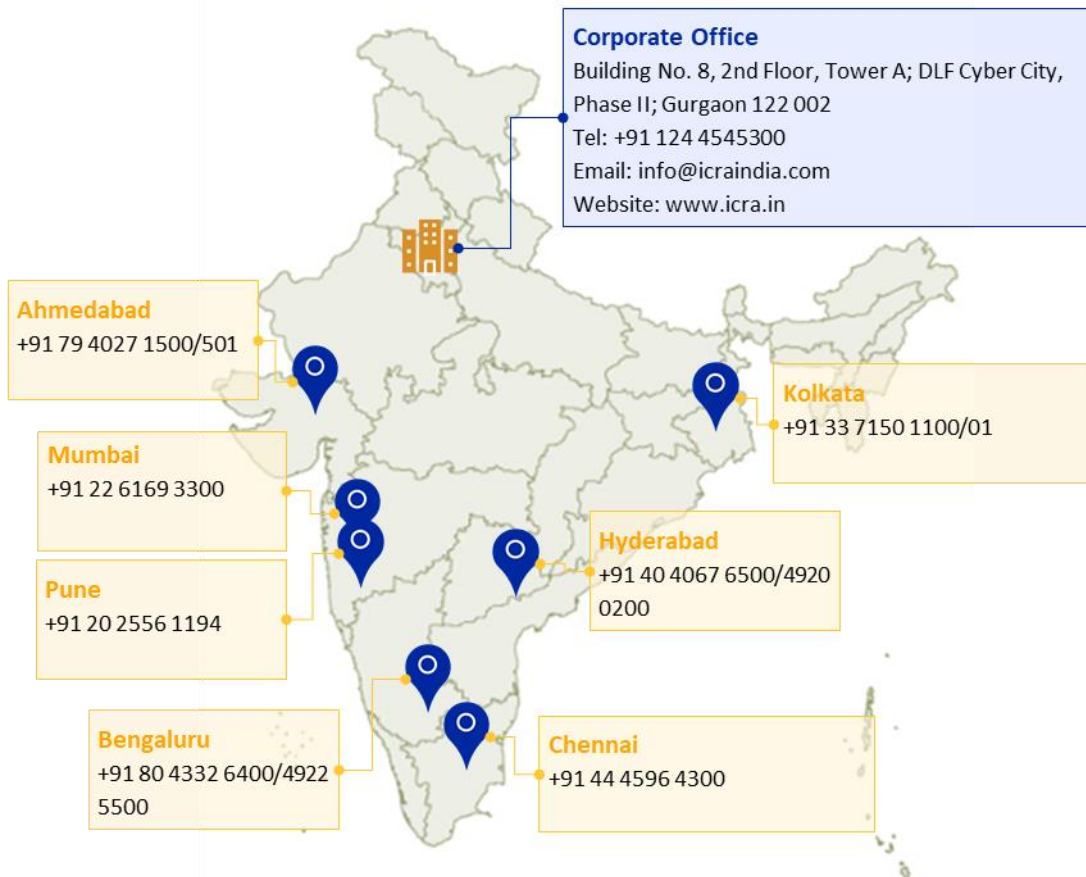
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