# ICICI Prudential Life Insurance

| | |
|---|---|
| Estimate change | ⟷ |
| TP change | ⟷ |
| Rating change | ⟷ |



| | |
|---|---|
| Bloomberg | IPRU IN |
| Equity Shares (m) | 1439 |
| M.Cap.(INRb)/(USDb) | 827.8 / 10.1 |
| 52-Week Range (INR) | 616 / 381 |
| 1, 6, 12 Rel. Per (%) | 3/9/-11 |
| 12M Avg Val (INR M) | 899 |

**Financials & Valuations (INR b)**

| Y/E MARCH | FY23 | FY24E | FY25E |
|---|---|---|---|
| Net Premiums | 385.6 | 421.6 | 474.8 |
| Surplus / Deficit | 23.0 | 20.6 | 21.3 |
| Sh. holder's PAT | 8.1 | 8.5 | 10.0 |
| NBP growth unwtd (%) | 12.3 | 8.0 | 15.0 |
| APE growth - (%) | 11.7 | 8.6 | 14.7 |
| Tot. Premium gr. (%) | 6.6 | 8.1 | 12.7 |
| VNB margin (%) | 32.0 | 32.6 | 33.5 |
| RoEV (%) | 12.7 | 18.4 | 18.1 |
| Total AUMs (INRt) | 2.5 | 3.0 | 3.5 |
| VNB (INRb) | 27.6 | 30.5 | 36.1 |
| EV per share | 248 | 293 | 346 |
| **Valuations** | | | |
| P/EV (x) | 2.3 | 2.0 | 1.7 |
| P/EVOP (x) | 15.1 | 13.1 | 11.4 |

**Shareholding pattern (%)**

| As On | Mar-23 | Dec-22 | Mar-22 |
|---|---|---|---|
| Promoter | 73.4 | 73.3 | 73.4 |
| DII | 6.1 | 5.9 | 4.7 |
| FII | 15.2 | 15.4 | 16.4 |
| Others | 5.3 | 5.3 | 5.5 |

FII Includes depository receipts

**CMP: INR575 TP: INR670 (+16%) Buy**

## Premium growth better than expected; margins moderate sequentially

### Persistency trend healthy across cohorts

- ICICI Prudential Life Insurance (IPRU) reported a 3.9% YoY decline in APE (6% beat) in 1QFY24. While savings and annuity segments saw a decline of 6% and 7.1% YoY, respectively, the protection segment registered a growth of 4.2% YoY.
- VNB declined 7% YoY to INR4.4b (in line), while VNB margin declined 200bp QoQ to 30% in 1QFY24. Lower margins were led by a change in product mix, wherein the share of non-par savings shifted to par and ULIP products. This was partially offset by strong growth in the protection segment.
- We estimate IPRU to deliver a 14% CAGR in VNB over FY23-25. This will be driven by a combination of premium growth and steady margins, thereby enabling an operating RoEV of ~18% over FY23-25E. We reiterate our **BUY rating with a TP of INR670 (premised on 1.9x Mar'25E EV).**

### Protection segment, direct channel report healthy growth

- IPRU's gross premium grew 1.5% YoY to INR73.7b (6% beat) in 1QFY24, with renewal premium up 7% YoY, while first year/single premium declining 1.5%/5.9% YoY, respectively. PAT grew 33% YoY to INR2.1b in 1QFY24 (12% beat).
- APE declined 3.9% YoY to INR14.6b (6% beat), driven by a 6% decline in savings product (Linked savings/non-linked savings/Annuity down 8%/4%/7% YoY, respectively).
- Protection business saw 4.2% YoY growth with retail protection jumping 62% YoY. The mix of protection in the overall mix stood at 23.5% in 1QFY24 vs 21.7% in 1QFY23.
- VNB declined 7% YoY to INR4.4b in 4QFY23 (in line), while VNB margin declined 200bp QoQ to 30% in 1QFY24.
- On the distribution front, the banca channel faced challenges with a decrease in the share of ICICI Bank and stagnant growth among non-ICICI Bank partners. However, this was offset by the agency and direct channels, which experienced robust expansion. Additionally, the inclusion of non-bank tie-ups contributed positively to overall growth. ICICI Bank now contributes 13.5% to overall APE of IPRU.
- Cost-TWRP escalated 390bp YoY to 27.7% in 1QFY24. Savings business cost increased 190bp to 18.8% in 1QFY24.
- On the persistency front, all cohorts witnessed an improvement. On a premium basis, the 13th month persistency saw a QoQ increase of 270bp, reaching 84.4%. Similarly, the 49th month persistency improved to 280bps, reaching 58.5%.

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## Highlights from the management commentary

- With transformation of the business in terms of diversification of products and distribution completed under the previous MD & CEO, Mr Anup Bagchi's focus will be to bring in VNB growth, wherein his strategy is to drive VNB through premium growth rather than margin expansion. Protection and annuity will continue to be the growth drivers.
- Although the share of policies with a premium of INR 0.5m or more may have declined in the non-par category, it is likely that their share increased in other product categories. However, the average ticket size in the non-par segment has been trending downwards
- In 1Q, 7,481 advisors were recruited. The company expanded its reach through various tie-ups, providing access to more than 19,000 bank branches. Furthermore, it has formed 957 non-bank partnerships, with 49 of them established in 1Q.

## Valuation and view

As guided, VNB for IPRU was driven by premium growth (6% ahead of estimates). However, the margins were lower than estimated. Although Apr'23 premium growth was adversely impacted due to the spillover effect, the growth rates rebounded in May'23 and Jun'23, indicative of a limited impact of the tax changes in the budget. The share of banca (excluding ICICI Bank) increased to 15% from 4% in FY19, thus supporting growth and diversification in the distribution mix. The increase in agent recruitments and the strong pace of new partnership additions will likely aid the growth in premiums. Further, the strategy of approaching customers with a wider product bouquet through all channels will also boost premiums growth. Persistency too saw an improvement across cohorts. We estimate IPRU to deliver a 14% CAGR in VNB over FY23-25. This will be fueled by a combination of premium growth and slight improvement in margins, thereby enabling an operating RoEV of ~18% over FY23-25E. We reiterate our **BUY rating with a TP of INR670 (based on 1.9x Mar'25E EV).**

**Quarterly performance** (INR b)

| Policy holder's A/c (INR b) | FY23 | | | | FY24E | | | | FY23 | FY24E | FY24E | A v/s E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2QE | 3QE | 4QE | | | 1QE | |
| First year premium | 10.4 | 14.4 | 13.8 | 26.3 | 10.2 | 16.1 | 17.6 | 29.3 | 64.9 | 73.1 | 10.7 | -4% |
| Growth (%) | 18.0% | -7.2% | -10.9% | 32.9% | -1.5% | 11.4% | 27.4% | 11.2% | 8.9% | 12.6% | 2.8% | |
| Renewal premium | 38.9 | 56.4 | 57.5 | 72.3 | 41.6 | 53.6 | 58.5 | 90.0 | 225.2 | 243.7 | 39.5 | 5% |
| Growth (%) | -5.9% | 1.3% | 5.7% | 6.3% | 6.8% | -5.0% | 1.7% | 24.5% | 2.6% | 8.2% | 1.4% | |
| Single premium | 23.3 | 28.1 | 26.5 | 31.3 | 21.9 | 26.8 | 29.3 | 43.9 | 109.2 | 121.9 | 19.2 | 14% |
| Growth (%) | 25.9% | 16.8% | 12.6% | 6.9% | -5.9% | -4.5% | 10.4% | 40.2% | 14.5% | 11.6% | -17.6% | |
| **Gross premium income** | **72.6** | **99.0** | **97.8** | **129.9** | **73.7** | **96.5** | **105.3** | **163.2** | **399.3** | **438.7** | **69.4** | **6%** |
| Growth (%) | 5.7% | 3.8% | 4.7% | 10.9% | 1.5% | -2.5% | 7.7% | 25.6% | 6.6% | 9.9% | -4.5% | |
| **PAT** | **1.6** | **2.0** | **2.2** | **2.3** | **2.1** | **1.8** | **2.1** | **1.3** | **8.1** | **7.7** | **1.8** | **12%** |
| Growth (%) | | -55.1% | -29.0% | 27.2% | 32.9% | -8.1% | -4.4% | -44.0% | 7.5% | -5.2% | 18.7% | |
| **Key metrics (INRb)** | | | | | | | | | | | | |
| New Business APE | 15.2 | 20.0 | 18.2 | 33.0 | 14.6 | 18.8 | 19.2 | 44.7 | 86.4 | 97.3 | 13.8 | 6% |
| Growth (%) | 24.7 | 1.1 | -5.5 | 26.5 | -3.9 | -6.1 | 5.5 | 35.4 | 11.7 | 12.6 | -0.1 | |
| VNB | 4.7 | 6.2 | 6.2 | 10.6 | 4.4 | 5.8 | 6.2 | 14.8 | 27.6 | 31.3 | 4.5 | -2% |
| Growth (%) | 31.6 | 20.6 | 20.0 | 36.1 | -7.0 | -6.3 | 1.1 | 40.3 | 27.7 | 13.0 | 0.0 | |
| AUM | 2,301 | 2,443 | 2,519 | 2,512 | 2,664 | 2,779 | 2,907 | 3,047 | 2,512 | 3,047 | 2,650 | 1% |
| Growth (%) | 3.1 | 3.0 | 6.0 | 4.4 | 15.8 | 13.8 | 15.4 | 21.3 | 4.4 | 21.3 | 0.2 | |
| **Key Ratios (%)** | | | | | | | | | | | | |
| VNB Margins (%) | 31.0 | 31.1 | 33.9 | 32.0 | 30.0 | 31.0 | 32.5 | 33.2 | 32.0 | 32.1 | 32.4 | |
| Solvency ratio (%) | 204 | 201 | 212 | 209 | 203 | 205 | 210 | 205 | 209 | 205 | 208 | |

## Quarterly snapshot

| Policyholder A/c (INRb) | FY22 | | | | FY23 | | | | FY24 | Change (%) | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | 1Q | YoY | QoQ |
| **Net premium** | **66.0** | **92.9** | **90.7** | **113.6** | **68.8** | **95.8** | **94.6** | **126.3** | **70.2** | **2** | **-44** |
| First year premium | 8.8 | 15.6 | 15.5 | 19.8 | 10.4 | 14.4 | 13.8 | 26.3 | 10.2 | -2 | -61 |
| Renewal premium | 41.4 | 55.7 | 54.4 | 68.0 | 38.9 | 56.4 | 57.5 | 72.3 | 41.6 | 7 | -42 |
| Single premium | 18.5 | 24.1 | 23.5 | 29.3 | 23.3 | 28.1 | 26.5 | 31.3 | 21.9 | -6 | -30 |
| Investment income | 92.1 | 135.5 | 7.4 | 14.8 | -86.7 | 128.2 | 77.2 | -19.1 | 160.3 | -285 | -941 |
| **Total income** | **167.2** | **231.3** | **98.7** | **138.5** | **-14.6** | **229.0** | **175.4** | **115.0** | **235.4** | **-1,711** | **105** |
| **Total commission & opex** | **10.4** | **11.9** | **12.6** | **18.6** | **12.2** | **14.7** | **14.4** | **23.2** | **14.9** | **22** | **-36** |
| Benefits paid | **56.7** | **80.2** | **76.6** | **80.0** | **55.1** | **80.2** | **87.1** | **87.6** | **79.5** | **44** | **-9** |
| **Total expenses** | **165.7** | **226.2** | **94.1** | **126.1** | **-19.0** | **223.4** | **169.6** | **105.9** | **233.3** | **-1,328** | **120** |
| **PBT** | **1.6** | **5.1** | **4.6** | **12.4** | **4.4** | **5.7** | **5.8** | **9.1** | **2.1** | **-52** | **-77** |
| **Surplus/(Deficit)** | **1.6** | **4.8** | **4.1** | **11.4** | **3.9** | **5.2** | **5.2** | **8.6** | **2.0** | **-49** | **-77** |
| **Shareholder A/c** | | | | | | | | | | | |
| **Trf from policyholder a/c** | **2.9** | **4.4** | **3.6** | **10.7** | **3.0** | **4.9** | **4.1** | **8.2** | **3.8** | **28** | **-54** |
| Investment Income | 4.0 | 3.3 | 1.2 | 1.7 | 1.7 | 2.0 | 2.4 | 2.6 | 3.3 | 90 | 28 |
| **Total income** | **6.9** | **7.7** | **4.8** | **12.3** | **4.7** | **6.9** | **6.5** | **10.8** | **7.1** | **51** | **-34** |
| **PAT** | **-1.9** | **4.4** | **3.1** | **1.8** | **1.6** | **2.0** | **2.2** | **2.3** | **2.1** | **33** | **-12** |
| **APE data** | | | | | | | | | | | |
| **Savings APE** | **9.5** | **17.0** | **16.2** | **21.5** | **11.9** | **16.2** | **14.8** | **28.5** | **11.2** | **-6** | **-61** |
| **ULIP** | **5.4** | **10.1** | **10.2** | **11.7** | **6.2** | **8.2** | **7.8** | **8.9** | **5.7** | **-8** | **-36** |
| **Other Savings** | **4.2** | **6.9** | **6.0** | **9.8** | **5.8** | **8.0** | **7.0** | **19.6** | **5.5** | **-4** | **-72** |
| - Non-Participating | 3.6 | 5.9 | 5.6 | 9.1 | 5.2 | 7.1 | 6.3 | 18.7 | 5.0 | -5 | -73 |
| - Group | 0.6 | 1.0 | 0.4 | 0.7 | 0.6 | 0.9 | 0.7 | 0.9 | 0.6 | -2 | -40 |
| **Protection** | **2.7** | **2.8** | **3.1** | **4.6** | **3.3** | **3.8** | **3.4** | **4.5** | **3.3** | **0** | **-27** |
| **Total APE** | **12.2** | **19.8** | **19.3** | **26.1** | **15.2** | **20.0** | **18.2** | **33.0** | **14.6** | **-4** | **-56** |
| **APE (% of total)** | | | | | | | | | | **Change (bp)** | |
| **Savings APE (%)** | **77.9** | **85.8** | **84.1** | **82.5** | **78.4** | **80.9** | **81.3** | **86.2** | **76.5** | **-190** | **-978** |
| **ULIP** | **43.9** | **50.9** | **53.0** | **45.0** | **40.5** | **41.0** | **42.7** | **26.9** | **38.7** | **-179** | **1,182** |
| **Other Savings** | **34.0** | **34.9** | **31.1** | **37.5** | **37.8** | **39.9** | **38.6** | **59.3** | **37.6** | **-18** | **-2,168** |
| - Non-Participating | 29.3 | 30.0 | 28.9 | 35.0 | 34.1 | 35.6 | 34.7 | 56.5 | 33.9 | -26 | -2,265 |
| - Group | 4.8 | 4.9 | 2.1 | 2.5 | 3.7 | 4.4 | 3.9 | 2.8 | 3.8 | 8 | 98 |
| **Protection** | **22.1** | **14.2** | **15.9** | **17.5** | **21.7** | **19.0** | **18.7** | **13.8** | **22.6** | **88** | **883** |
| **Distribution mix (%)** | | | | | | | | | | | |
| Banca | 38.6 | 39.9 | 39.5 | 38.0 | 34.7 | 29.8 | 27.5 | 27.6 | 28.9 | -578 | 136 |
| Agency | 22.5 | 24.3 | 25.8 | 22.0 | 22.4 | 26.0 | 28.4 | 27.4 | 24.4 | 200 | -295 |
| Direct | 13.1 | 12.9 | 13.2 | 12.5 | 10.8 | 12.5 | 14.4 | 11.8 | 14.5 | 365 | 274 |
| Corporate Agents | 8.4 | 8.7 | 8.5 | 10.7 | 11.1 | 11.8 | 11.7 | 19.9 | 12.4 | 127 | -756 |
| Group | 17.4 | 14.2 | 13.0 | 16.8 | 20.9 | 19.9 | 18.0 | 13.4 | 19.8 | -114 | 640 |
| **Key Ratios (%)** | | | | | | | | | | | |
| **Operating ratios** | | | | | | | | | | | |
| Commission (unwtd) | 5.2 | 5.8 | 5.8 | 6.1 | 5.9 | 5.6 | 5.3 | 7.4 | 7.1 | 120 | -30 |
| Opex (unwtd) | 14.7 | 10.4 | 11.6 | 14.3 | 17.9 | 14.3 | 14.1 | 15.4 | 20.6 | 270 | 520 |
| Total Cost (unwtd) | 19.9 | 16.2 | 17.4 | 20.4 | 23.8 | 19.9 | 19.4 | 22.8 | 27.7 | 390 | 490 |
| Solvency Ratio | 193.7 | 199.9 | 202.2 | 204.5 | 203.6 | 200.7 | 212.2 | 208.9 | 203.4 | -20 | -550 |
| **Profitability ratios** | | | | | | | | | | | |
| VNB margins | 29.4 | 26.0 | 26.7 | 29.7 | 31.0 | 31.1 | 33.9 | 32.0 | 30.0 | -102 | -200 |
| **Persistency ratios** | | | | | | | | | | | |
| 13th Month | 85.0 | 85.0 | 84.8 | 85.7 | 82.7 | 85.9 | 86.1 | 81.7 | 84.4 | 170 | 270 |
| 25th Month | 73.7 | 75.0 | 75.7 | 77.2 | 73.9 | 77.2 | 77.1 | 75.5 | 77.7 | 380 | 220 |
| 37th Month | 66.4 | 66.3 | 66.6 | 67.1 | 70.1 | 68.7 | 70.0 | 69.4 | 71.2 | 110 | 180 |
| 49th Month | 64.9 | 62.9 | 63.0 | 63.7 | 62.0 | 65.4 | 66.0 | 63.1 | 65.8 | 380 | 270 |
| 61st Month | 50.8 | 51.8 | 52.7 | 54.4 | 61.5 | 61.2 | 64.2 | 62.9 | 63.0 | 150 | 10 |
| **Key Metrics (INRb)** | | | | | | | | | | | |
| VNB | 3.6 | 5.2 | 5.2 | 7.8 | 4.7 | 6.2 | 6.2 | 10.6 | 4.4 | -7 | -58 |
| EV | NA | 302 | NA | 316 | NA | 326 | NA | 356 | NA | NA | NA |
| AUM | 2232 | 2371 | 2376 | 2405 | 2301 | 2443 | 2519 | 2512 | 2664 | 16 | 6 |

Note: (a) Persistency ratios are excluding single premium and cumulative for 1H, 9M, and 12M

## Highlights from the management commentary

### Business

- Under the new MD & CEO Mr Anup Bagchi, IPRU would focus on driving VNB growth via premium growth rather than margin expansion. The transformation with respect to diversification of products and distribution is largely complete. Protection and annuity will continue to be the growth drivers.
- Regulator extended the timelines for ‘use and file’, which will enable insurers to move swiftly with macroeconomic changes.
- IPRU launched new products including I-shield (a combination of life and health insurance), two new optional attachments: accident disability and death riders, and a constant maturity fund.
- IPRU is implementing a 4D strategy along with erstwhile 4P strategy – data analytics, digitalization, depth in partnerships, and diversified propositions.
- Data analytics – IPRU has invested in AI/ML, which will aid in cluster-based targeting of customers, streamlining claims, and better underwriting. The tools have been extended to partners as well.
- Diversified products – launched new products to meet customer demands.
- Digitalization - IPRU is investing in a digital transformation journey, wherein the endeavor is to create hassle-free experience for customers. More than 99% of policies are logged digitally.
- Depth in partnerships – Focus has been onboarding additional partners, strengthening proprietary channels and empowering partners with digital tools.

### Distribution

- IPRU added 7,481 advisors in 1Q; the company expanded its reach through various tie-ups, providing access to more than 19,000 bank branches. Furthermore, it has formed 957 non-bank partnerships, with 49 of them established in 1Q
- The company increased its agency managers count from 3,000 to 4,000, with 4-5% contribution in 1Q coming from new agency managers hired.
- Non ICICI Bank and Agency channels saw a growth of 20%+ in May and June.

### Finance

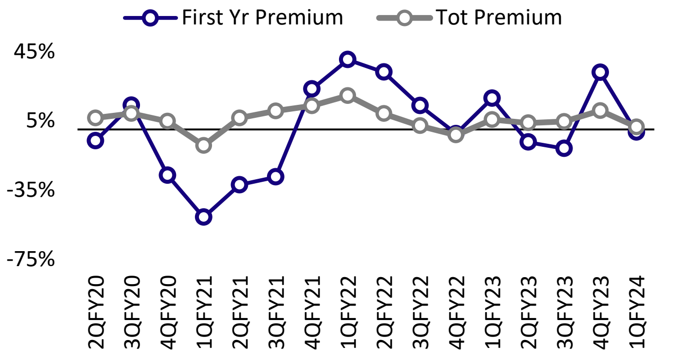
- The rise in expenses can be attributed to ongoing investments in capacity expansion. The increase in employee costs was primarily due to investments made in agency managers to facilitate the addition of agents. Additionally, opex was higher due to marketing initiatives aimed at promoting the company products and services.
- With respect to EOM regulations, the management believes that commission costs will eventually rise, but would get offset by lower expenses. However, in some cases, commission costs have already experienced an increase.
- With respect to managing risks, 1) mortality experience has been within expectation, 2) 0.2% of fixed income investments are in below AA, and 3) 74.7% of liabilities largely pass on market performance to customers.
- The VNB Margin was impacted by a change in taxation regulations in 4Q. This change resulted in a shift toward less profitable products, such as ULIP and PAR products. Consequently, this shift more than offset the positive impact of a higher share of protection products on the VNB margin.

**Products**

- Retail protection growth has come from policy ticket size as well as higher sum assured.
- Within the group protection segment, credit life has continued to exhibit growth. However, the employer-employee sub-category has faced challenges due to higher pricing. Nevertheless, with the removal of COVID loadings, improvements in growth are expected in the future.
- Protection pricing is an ongoing exercise and the management does not expect demand impact because of the same.
- ULIPs are witnessing a resurgence in demand due to the unchanged tax advantage they offer compared to the changes in taxation for debt MFs. To cater to this increased demand, a constant maturity product was launched.
- By regulation, ULIP margins can be in a narrow range and cannot see a high double-digit margin.
- Decline in annuity premium in 1Q was on a high base of 1QFY23, wherein a 60%+ growth was reported because of new product launches. Segregating annuity between Single premium and Regular pay, single premium saw a decline due to high deposit rates, while regular pay products saw 30-40%+ growth. IPRU expects demand to rebound in the single premium product.
- While the share of INR0.5m + ticket size would have declined in the non par segment, its share in other products would have increased. Average ticket size in the non-par segment has been trending downwards.

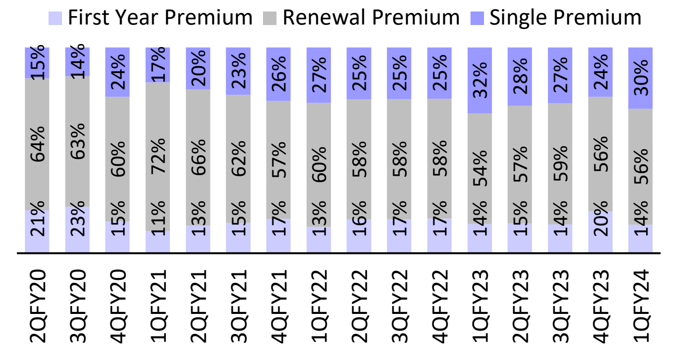
## Story in charts

**Exhibit 1: First-year premium declined 2% YoY, while total premium growing ~1.5% YoY**



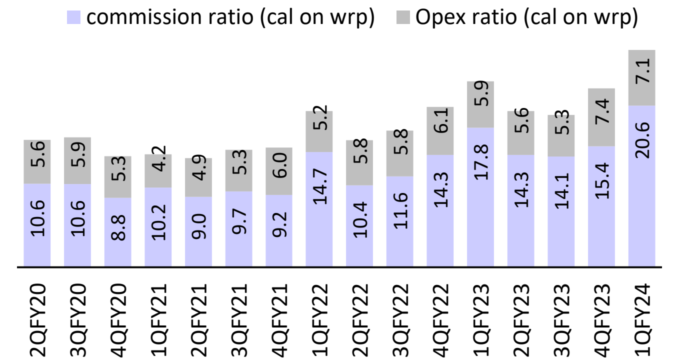

Source: MOFSL, Company

**Exhibit 2: Share of renewal premium was steady at 56% in 1QFY24**



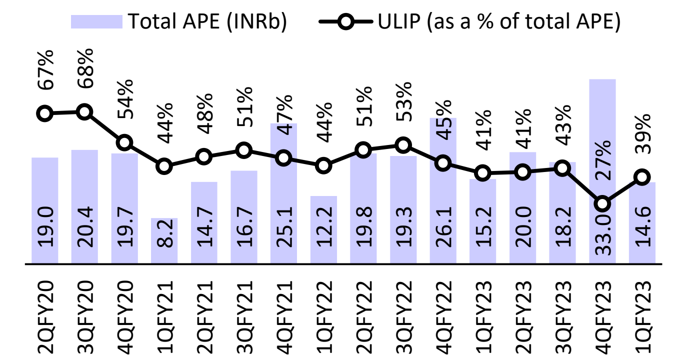

Source: MOFSL, Company

**Exhibit 3: Total expense ratio increased QoQ to 27.7% in 1QFY24,**



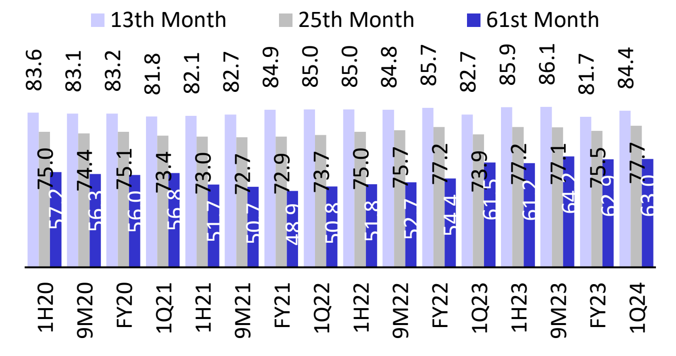

Source: MOFSL, Company

**Exhibit 4: The share of ULIP in total APE increased to 39% in 1QFY24**



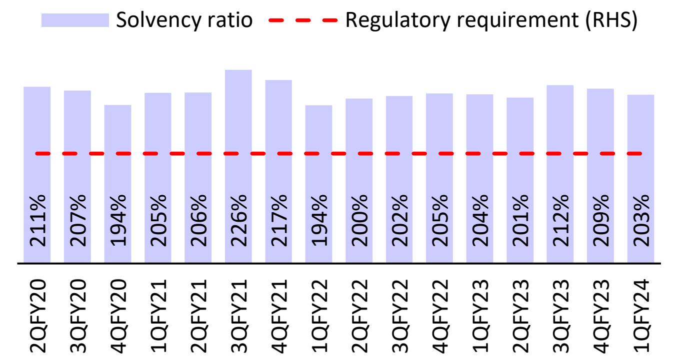

Source: MOFSL, Company

**Exhibit 5: Persistency improved across cohorts**



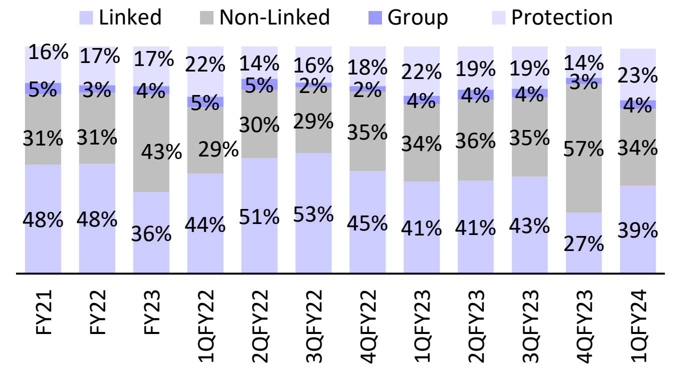

Source: MOFSL, Company

**Exhibit 6: Solvency ratio healthy at 203%, well above the regulatory requirement of 150%**



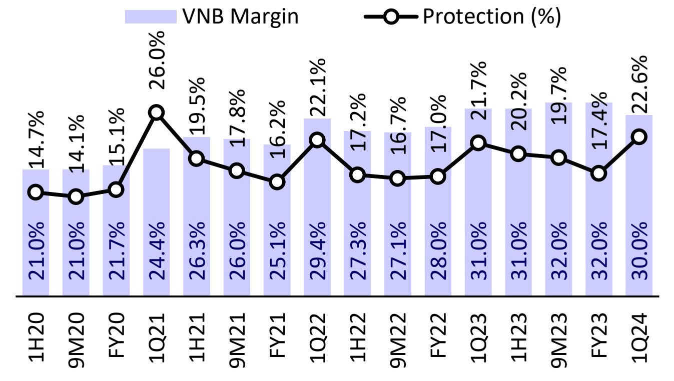

Source: MOFSL, Company

**Exhibit 7: Share of protection stood at 23% of total APE, while the share of ULIP was at 39%**



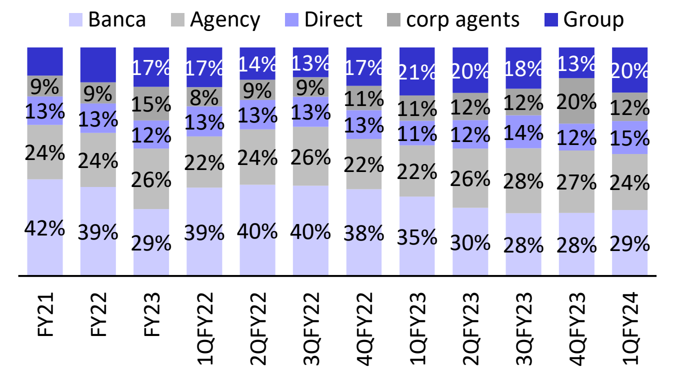

Source: MOFSL, Company

**Exhibit 8: VNB margin declined to 30% in 1QFY24**



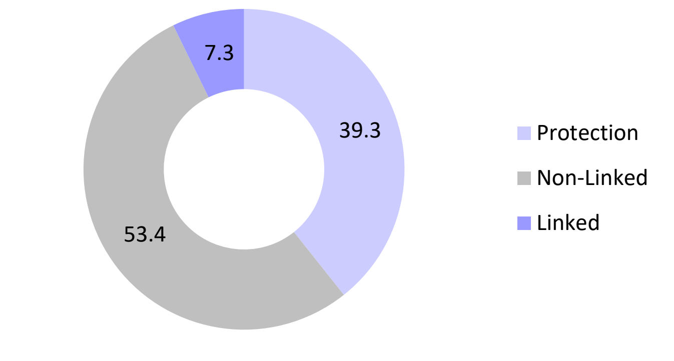

Source: MOFSL, Company

**Exhibit 9: Broad-based distribution machinery with the share of banca gradually declining**




Source: MOFSL, Company

**Exhibit 10: VNB contribution mix for FY23 – ~39% of total VNB originated from the Protection segment**




Source: MOFSL, Company

## Valuation and view

- The rising share of financial savings and higher disposable incomes along with favorable demographics would enable healthy growth for insurers. Thus, India's Life Insurance sector is well-positioned to deliver healthy long-term structural growth. Therefore, we expect Indian insurers to trade at a premium to global peers. Private sector life insurance companies form a 58% market share in total APE, and IPRU is among the leading players to register market share gains across segments.
- IPRU continues to focus on a change in the product mix, with high emphasis on the Non-Linked and Annuity segments, while Protection is also witnessing healthy recovery. On the other hand, the ULIP segment has been impacted adversely by market volatility, but is likely to pick up gradually.
- New channel partners are likely to support business growth further. The share of the banca channel (ex-ICICIBC) has increased to ~15.5% (from 4% in FY19). Thus, we believe strengthened distribution would enable further diversification and drive an increase in the Non-Linked segment mix, which would aid margins.
- The company achieved its stated guidance of doubling its FY19 VNB by FY23 and expects the healthy growth in VNB to continue, aided by: a) an opportunity in the long-term Savings/ Protection business and b) improving persistency and cost ratios. The Protection business contributed ~39% to the total VNB and the Non-Linked business contributed 53% in FY23.

- **BUY with a TP of INR670:** As guided, VNB for IPRU was driven by premium growth (6% ahead of estimates).  However, the margins were lower than estimated. Although Apr'23 premium growth was adversely impacted due to the spillover effect, the growth rates rebounded in May'23 and Jun'23, indicative of a limited impact of the tax changes in the budget. The share of banca (excluding ICICI Bank) increased to 15% from 4% in FY19, thus supporting growth and diversification in the distribution mix. The increase in agent recruitments and the strong pace of new partnership additions will likely aid the growth in premiums. Further, the strategy of approaching customers with a wider product bouquet through all channels will also boost premiums growth. Persistency too saw an improvement across cohorts. We estimate IPRU to deliver a 14% CAGR in VNB over FY23-25. This will be fueled by a combination of premium growth and slight improvement in margins, thereby enabling an operating RoEV of ~18% over FY23-25E. We reiterate our BUY rating with a TP of INR670 (based on 1.9x Mar'25E EV).

# Financials and valuation

| Technical account (INR b) | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| Gross Premiums | 309.3 | 334.3 | 357.3 | 374.6 | 399.3 | 438.7 | 496.8 |
| Reinsurance Ceded | (3.5) | (5.5) | (7.6) | (11.4) | (13.7) | (10.0) | (12.0) |
| Net Premiums | 305.8 | 328.8 | 349.7 | 363.2 | 385.6 | 428.8 | 484.8 |
| Income from Investments | 102.1 | (125.2) | 474.4 | 249.7 | 99.6 | 211.9 | 243.2 |
| Other Income | 5.5 | 15.3 | 16.2 | 21.8 | 1.5 | 28.8 | 33.1 |
| **Total income (A)** | **414.0** | **219.4** | **840.8** | **635.6** | **504.8** | **669.4** | **761.1** |
| Commission | 15.5 | 15.9 | 15.0 | 16.7 | 18.6 | 25.2 | 28.4 |
| Operating expenses | 26.1 | 28.5 | 26.9 | 36.7 | 45.8 | 55.8 | 62.6 |
| **Total commission and opex** | **41.6** | **44.3** | **41.9** | **53.5** | **64.5** | **81.0** | **91.0** |
| Benefits Paid (Net) | 142.6 | 193.8 | 226.4 | 291.5 | 310.0 | 202.5 | 233.2 |
| Chg. in reserves | 210.0 | (50.6) | 543.2 | 260.0 | 98.2 | 356.7 | 404.7 |
| Provisions for doubtful debts | 6.4 | 8.7 | 6.8 | 7.2 | 7.2 | 6.3 | 7.0 |
| **Total expenses (B)** | **400.5** | **196.2** | **818.3** | **612.1** | **479.9** | **646.4** | **735.9** |
| **(A) - (B)** | **13.4** | **23.2** | **22.5** | **23.6** | **24.9** | **23.0** | **25.2** |
| Prov. for Tax | 1.1 | 1.3 | 1.4 | 1.7 | 1.8 | 2.4 | 1.3 |
| **Surplus / Deficit** | **12.3** | **21.9** | **21.1** | **21.9** | **23.0** | **20.6** | **23.9** |

| Shareholder's a/c (INR b) | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| Transfer from technical a/c | 10.8 | 19.9 | 19.8 | 21.6 | 20.2 | 18.3 | 22.7 |
| Income From Investments | 6.4 | 6.6 | 7.7 | 10.1 | 8.8 | 8.6 | 8.7 |
| **Total Income** | **17.3** | **26.5** | **27.5** | **31.7** | **28.9** | **26.8** | **31.5** |
| Other expenses | 0.4 | 0.4 | 0.6 | 1.0 | 1.0 | 1.1 | 1.3 |
| Contribution to technical a/c | 5.3 | 15.0 | 15.7 | 21.6 | 18.0 | 17.5 | 17.0 |
| **Total Expenses** | **5.6** | **15.8** | **16.7** | **23.8** | **20.0** | **18.6** | **18.3** |
| **PBT** | 11.6 | 10.7 | 10.8 | 7.9 | 9.0 | 8.3 | 13.2 |
| Prov. for Tax | 0.2 | - | 1.2 | 0.4 | 0.9 | 0.6 | 0.9 |
| **PAT** | **11.4** | **10.7** | **9.6** | **7.5** | **8.1** | **7.7** | **12.2** |
| **Growth** | **-30%** | **-6%** | **-10%** | **-21%** | **7%** | **-5%** | **59%** |

| Premium (INR b) & growth (%) | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| NBP - unweighted | 103.6 | 124.9 | 132.3 | 155.0 | 174.1 | 195.0 | 224.3 |
| NBP - wrp | 78.0 | 73.8 | 64.6 | 77.3 | 86.4 | 97.3 | 111.6 |
| Renewal premium | 205.7 | 209.4 | 225.1 | 219.6 | 225.2 | 243.7 | 272.5 |
| Total premium - unweighted | 309.3 | 334.3 | 357.3 | 374.6 | 399.3 | 438.7 | 496.8 |
| NBP growth - unweighted | 12.5% | 20.5% | 5.9% | 17.2% | 12.3% | 12.0% | 15.0% |
| NBP growth - wrp | 0.1% | -5.4% | -12.5% | 19.7% | 11.7% | 12.6% | 14.7% |
| Renewal premium growth | 15.2% | 1.8% | 7.5% | -2.4% | 2.6% | 8.2% | 11.8% |
| Tot. premium growth - unweighted | 14.3% | 8.1% | 6.9% | 4.8% | 6.6% | 9.9% | 13.2% |

| Premium mix (%) | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| **New business - un-wtd** | | | | | | | |
| - Individual mix | 78.5 | 63.1 | 61.1 | 60.0 | 64.0 | 67.0 | 70.0 |
| - Group mix | 21.5 | 36.9 | 40.7 | 40.0 | 36.0 | 33.0 | 30.0 |
| **New business mix - APE** | | | | | | | |
| - Participating | 9.0 | 12.5 | 14.9 | 9.6 | 16.6 | 17.6 | 16.6 |
| - Non-participating | 9.1 | 18.6 | 32.6 | 36.8 | 39.2 | 37.3 | 38.2 |
| - ULIPs | 82.0 | 69.0 | 52.5 | 53.6 | 44.1 | 45.1 | 45.3 |
| **Total premium mix - un-wtd** | | | | | | | |
| - Participating | 11.3 | 12.0 | 12.9 | 12.7 | 12.8 | 13.7 | 11.9 |
| - Non-participating | 15.3 | 18.1 | 23.7 | 33.3 | 34.4 | 32.4 | 34.8 |
| - ULIPs | 73.5 | 69.8 | 63.4 | 54.0 | 52.8 | 53.9 | 53.3 |

| Indi. Premium sourcing mix (%) | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| Individual agents | 21.8 | 21.9 | 24.0 | 27.6 | 28.6 | 29.6 | 30.6 |
| Corporate agents-Banks | 55.2 | 49.7 | 45.5 | 45.2 | 45.0 | 44.8 | 44.6 |
| Direct business | 16.7 | 20.1 | 19.5 | 16.3 | 18.7 | 18.5 | 18.3 |
| Others | 6.3 | 8.3 | 11.0 | 10.9 | 7.7 | 7.1 | 6.5 |

# Financials and valuation

| Balance sheet (INR b) | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| **Sources of Fund** | | | | | | | |
| Share Capital | 14.4 | 14.4 | 14.4 | 14.4 | 14.4 | 14.4 | 14.4 |
| Reserves And Surplus | 54.4 | 61.1 | 70.7 | 75.9 | 83.7 | 88.0 | 96.6 |
| **Shareholders' Fund** | **70.4** | **72.2** | **91.2** | **91.6** | **100.9** | **105.5** | **114.4** |
| Policy Liabilities | 385.5 | 473.6 | 602.2 | 736.8 | 903.1 | 1,114.3 | 1,366.1 |
| Prov. for Linked Liab. | 1,037.0 | 880.4 | 1,277.7 | 1,405.4 | 1,352.3 | 1,792.4 | 1,953.8 |
| Funds For Future App. | 10.3 | 12.3 | 13.5 | 13.8 | 16.7 | 19.2 | 22.1 |
| Current liabilities & prov. | 36.6 | 33.3 | 37.3 | 52.5 | 56.9 | 68.2 | 81.9 |
| **Total** | **1,630.9** | **1,560.4** | **2,172.3** | **2,444.4** | **2,558.5** | **3,129.4** | **3,569.3** |
| **Application of Funds** | | | | | | | |
| Shareholders' inv | 79.9 | 74.2 | 100.9 | 98.5 | 98.5 | 105.4 | 112.8 |
| Policyholders' inv | 400.7 | 467.5 | 635.7 | 773.9 | 943.1 | 1,149.3 | 1,414.1 |
| Assets to cover linked liab. | 1,109.5 | 970.8 | 1,385.5 | 1,508.7 | 1,440.6 | 1,792.4 | 1,953.8 |
| Loans | 2.7 | 4.6 | 6.6 | 9.4 | 13.1 | 14.8 | 16.8 |
| Fixed Assets | 4.8 | 4.8 | 4.6 | 4.9 | 6.0 | 6.8 | 7.7 |
| Current assets | 33.4 | 38.4 | 39.0 | 49.1 | 57.2 | 60.6 | 64.2 |
| **Total** | **1,630.9** | **1,560.4** | **2,172.3** | **2,444.4** | **2,558.5** | **3,129.4** | **3,569.3** |

| Operating ratios (%) | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| Investment yield (%) | 6.8 | -8.7 | 23.5 | 10.9 | 3.9 | 7.2 | 7.2 |
| **Commissions / GWP** | **5.0** | **4.7** | **4.2** | **4.5** | **4.7** | **5.7** | **5.7** |
| - first year premiums | 16.0 | 16.5 | 17.9 | 17.3 | 18.0 | 26.6 | 25.9 |
| - renewal premiums | 1.9 | 1.8 | 1.8 | 1.9 | 1.9 | 1.8 | 1.8 |
| - single premiums | 1.4 | 1.1 | 1.3 | 1.5 | 1.4 | 1.1 | 1.1 |
| Operating expenses / GWP | 8.4 | 8.5 | 7.5 | 9.8 | 11.5 | 12.7 | 12.6 |
| **Total expense ratio** | **13.4** | **13.3** | **11.7** | **14.3** | **16.1** | **18.5** | **18.3** |
| Claims / NWP | 46.6 | 58.9 | 64.7 | 80.2 | 80.4 | 47.2 | 48.1 |
| Solvency margin | 215 | 194 | 217 | 205 | 209 | 205 | 200 |

| Persistency ratios (%) | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| 13th Month | 86.2 | 83.2 | 84.9 | 85.7 | 81.7 | 80.9 | 80.5 |
| 25th Month | 77.4 | 75.1 | 72.9 | 77.2 | 75.5 | 74.7 | 74.2 |
| 37th Month | 71.0 | 66.7 | 65.8 | 67.1 | 69.4 | 71.8 | 74.2 |
| 49th Month | 65.0 | 64.6 | 63.5 | 63.7 | 63.1 | 63.0 | 63.3 |
| 61st Month | 58.1 | 56.0 | 48.9 | 54.4 | 62.9 | 63.8 | 63.8 |

| Profitability ratios | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| VNB margin (%) | 17.0 | 21.7 | 25.1 | 28.0 | 32.0 | 32.1 | 33.5 |
| RoE (%) | 16.4 | 15.0 | 11.8 | 8.2 | 8.4 | 7.4 | 11.1 |
| RoIC (%) | 23.5 | 22.0 | 19.8 | 15.5 | 16.7 | 15.8 | 25.2 |
| Operating ROEV (%) | 20.2 | 15.2 | 15.2 | 11.0 | 17.4 | 17.9 | 17.5 |
| RoEV (%) | 15.1 | 6.5 | 26.5 | 8.7 | 12.7 | 18.6 | 18.4 |

| Valuation ratios | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E |
|---|---|---|---|---|---|---|---|
| Total AUMs (INRb) | 1,604.1 | 1,529.7 | 2,142.2 | 2,404.9 | 2,511.9 | 3,047.2 | 3,480.6 |
| - Of which equity AUMs (%) | 48 | 40 | 45 | 47 | 45 | 47 | 47 |
| Dividend (%) | 49 | 23 | 0 | 6 | 6 | 24 | 26 |
| Dividend payout ratio (%) | 74 | 38 | 0 | 38 | 11 | 44 | 30 |
| EPS (INR) | 8.0 | 7.4 | 6.7 | 5.3 | 5.6 | 5.3 | 8.5 |
| VNB (INRb) | 13.3 | 16.0 | 16.2 | 21.7 | 27.6 | 31.3 | 37.4 |
| EV (INRb) | 216.1 | 230.2 | 291.1 | 316.2 | 356.3 | 422.4 | 500.3 |
| EV/Per share | 150.2 | 160.0 | 202.3 | 219.8 | 247.7 | 293.6 | 347.8 |
| VIF as % of EV | 66 | 66 | 67 | 74 | 75 | 78 | 80 |
| P/VIF | 5.8 | 5.4 | 4.2 | 3.6 | 3.1 | 2.5 | 2.1 |
| P/AUM (%) | 52 | 54 | 39 | 34 | 33 | 27 | 24 |
| P/EV (x) | 3.8 | 3.6 | 2.8 | 2.6 | 2.3 | 2.0 | 1.7 |
| P/EPS (x) | 72.3 | 77.3 | 85.9 | 109.5 | 102.0 | 107.6 | 67.6 |
| P/EVOP (x) | 21.8 | 25.2 | 23.6 | 25.9 | 15.1 | 13.0 | 11.2 |

| Explanation of Investment Rating | |
|---|---|
| **Investment Rating** | **Expected return (over 12-month)** |
| BUY | >=15% |
| SELL | < - 10% |
| NEUTRAL | < - 10 % to 15% |
| UNDER REVIEW | Rating may undergo a change |
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