

ICICI Prudential Life Insurance Ltd.



ICICI Prudential Life Insurance Ltd.

Muted premium growth; Outlook focused on VNB growth

CMP INR 548	Target INR 665	Potential Upside 21.5%	Market Cap (INR Mn) INR 7,87,784	Recommendation BUY	Sector Life Insurance
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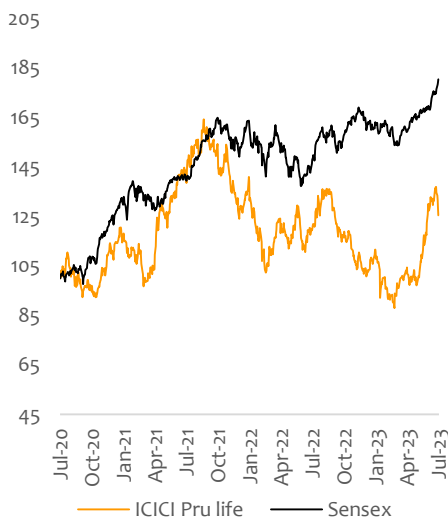
Result Highlights of Q1 FY24:

- In Q1FY24, the Gross Written Premium (GWP) de-grew 43.2% QoQ on a high base of Q4FY23 but grew by 1.5% YoY to INR 73,748 Mn.
- The Annualized Premium Equivalent (APE) for Q1FY24 stood at INR 14,610 Mn, a decline of 3.9% YoY/ 55.7% QoQ.
- The VNB for Q1FY24 declined by 7.0% YoY/ 58.5% QoQ to INR 4,380 Mn, with VNB margins at 30.0% for the quarter as against 32.0% in Q4FY23 (vs 31.0% in Q1FY23).
- As of June 30, 2023, the solvency ratio was 203% against the regulatory requirement of 150%.
- The total assets under management of the company were INR 2,664 bn as of June 30, 2023, a growth of 15.8% YoY/ 6.1% QoQ.

MARKET DATA

Shares outs (Mn)	1,439
Equity Cap (INR Mn)	1,05,203
Mkt Cap (INR Mn)	7,87,784
52 Wk H/L (INR)	616/381
Volume Avg (3m K)	2,216
Face Value (INR)	10
Bloomberg Code	IPRU : IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	67,572
NIFTY	19,979

KEY FINANCIALS

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E
GWP	3,57,328	3,74,580	3,99,328	4,38,507	4,96,379
PAT	9,601	7,541	8,107	7,398	12,274
EPS (INR/Share)	6.7	5.2	5.6	5.1	8.5
NBP-APE	59,911	77,330	86,400	94,275	1,11,245
VNB	16,210	21,630	27,650	29,225	35,042
VNB Margin (%)	21.8%	28.0%	32.0%	31.0%	31.5%
EVPS (INR/Share)	202.7	220.0	247.7	286.7	332.5

Source: Company, KRChoksey Research

VNB margin declines; cost remains elevated: IPRU reported VNB margins at 30.0%, a decline of 101 bps YoY/ 199 bps QoQ in Q1FY24, led by moderation in the contribution from the Non-Par segment during the quarter. The VNB margins were impacted due to the budgetary changes declared in the last quarter, which resulted in a shift in the product mix during Q1FY24 with increased demand for ULIP & par products. The VNB for Q1FY24 de-grew by 7.0% YoY/ 58.5% QoQ, led by a decline in APE and a contraction of VNB margins. Going ahead, we expect the absolute VNB to grow at 12.6% CAGR over FY23–25E with stability in margins at 31.0-31.5% over FY24-FY25E supported by improving trend of the protection segment in upcoming quarters. Coming to the cost ratio, IPRU reported an elevated cost ratio for Q1FY24 to 27.7% vs 23.8% in Q1FY23 on account of expenses higher by 18.4% YoY. The commission expenses increased by 25.2% in Q1FY24, primarily owing to higher commissions in new business commissions due to changes in the commission structure in line with the new guidelines issued by the IRDAI on March 31, 2023. Operating expenses increased by 16.8% YoY due to higher advertisement, sales-related costs, and employee remuneration. Claims and benefits increased by 44.2%, led by higher surrenders/withdrawals in the unit-linked portfolio. We expect the cost ratio to remain elevated in the near term, led by an increased focus on product development & expansion of the distribution mix.

Retail protection segment reported healthy growth; ICICI Bank share continues to decline: IPRU has reported muted growth in Gross Written Premium (GWP) at 1.5% YoY but declined by 43.2% QoQ to INR 73,748 Mn. In Q1FY24, the New Business premium segment saw a de-growth of 4.5% YoY/ 44.2% QoQ. Renewal segment premium grew 6.8% YoY but declined by 42.5% QoQ in Q1FY24. The APE de-grew by 3.9% YoY, primarily led by de-growth in the savings APE by 6.0% YoY. The protection APE reported a growth of 4.2% YoY in Q1FY24, with a sharp jump in retail protection growth by 61.8% YoY. The ULIP APE share for the quarter stood at 38.8%, which increased from 36% in FY23. On the distribution front, ICICI Bank reported a further decline in share from 13.8% in FY23 to 13.0% in Q1FY24. The agency segment for the quarter grew by 4.4% YoY, while the direct business grew by 28.5% YoY. IPRU continued to build capacity and added more than 7,400 agents in Q1FY24 spread across geographies. Within the bank and non-bank channel, the company continued to add new partnerships taking the total to 39 bank partnerships and more than 950 non-bank partnerships with the addition of 49 non-bank partners in Q1FY24.

SHARE HOLDING PATTERN (%)

Particulars	Jun-23	Mar-23	Dec-22
Promoters	73.35	73.4	73.4
FIIIs	15.21	15.2	15.4
DIIIs	11.4	11.4	11.2
Others	5.3	5.3	5.0
Total	100.0	100.0	100.0

11.5%

GWP CAGR between FY23 and FY25E

12.6%

VNB CAGR between FY23 and FY25E

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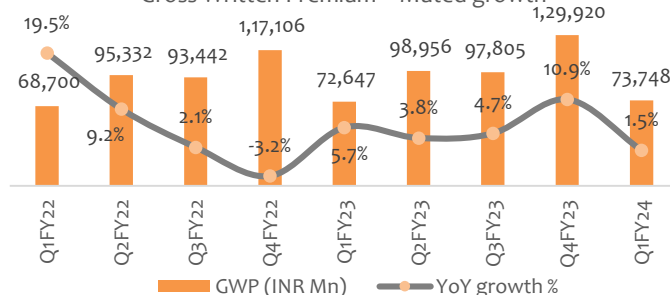
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Key Concall Highlights:

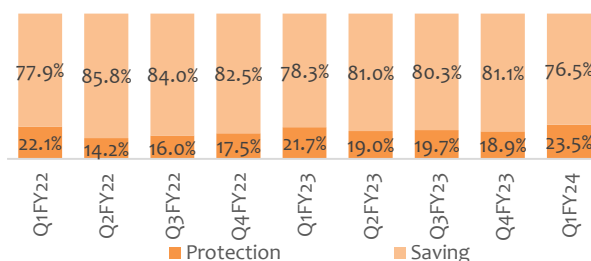
- IRDAI has extended the use and file mechanism towards launching new products, including unit-linked life and health insurance products and combi products, where life insurance takes the lead. Additionally, the approval process for new funds has also been simplified. These measures aim to provide insurance with greater flexibility to react to market dynamics swiftly and meet the customers' evolving needs, thereby supporting ideas and the vision of insurance for all.
- IPRU strengthened its product portfolio in Q1FY24 by launching new products and funds that complement its offerings. iShield, launched in 2023 in partnership with ICICI Lombard, offers a comprehensive protection proposition that combines the benefits of life and health insurance under one umbrella.
- It has also launched ICICI Pru Protect N Gain, a protection-oriented unit life insurance product that addresses both the protection and savings need of the customer. So, to further strengthen its savings portfolio with the addition of two new optional attachments, ICICI Pru Non-Linked Accidental, Health and Disability Rider and ICICI Pru Linked Accident Death and Disability Rider, both are optional.
- It has expanded its products of funds by adding a constant maturity fund, a debt fund offered with our unit-linked insurance plans. Against rising interest rates, this fund is suitable for customers looking for wealth preservation and tax-efficient returns.
- The elements of the 4D frameworks of IPRU are data analytics, diversified propositions, digitalization and depth in partnerships with a focus on quality business in a risk-calibrated manner. This framework will ensure that products are aligned with the customer needs, are designed to meet those needs most effectively, and are developed with the highest quality standards through the most appropriate channels.
- Within the bank and non-bank channels, IPRU continues to add new partnerships and increase the share of the shops in the existing partnerships. The company has 39 bank partnerships and more than 950 non-bank partnerships, adding 49 non-bank partners during Q1FY24.
- IPRU has used a two-pronged strategy to drive premium growth: a) investing in building existing channels and widening the distribution to maintain a diversified distribution mix; and b) continuing to strengthen our product portfolio to address changing consumer preference in a dynamic economic environment.
- The total expenses grew by 21.9% YoY. The expenses are higher as compared to Q1FY23 on account of continued investment in capacity creation to support future growth.
- On credit risk, only 0.2% of its fixed income portfolio is invested in bonds rated below AA and IPRU continues to maintain a track record of not having a single NPAs since its inception.

Valuation and view: IPRU reported a muted performance in Q1FY24. IPRU has been active in terms of product & distribution expansion to maintain its leadership amongst the private players. The premium growth for the quarter was impacted due to the taxation changes announced in the Union Budget, which led to subdued growth for a non-par segment while a demand shift towards ULIP and par segments. The protection segment reported healthy growth in APE, led by a sharp recovery in the retail segment. IPRU is expected to focus on APE growth, which will be the key driver for healthy VNB growth in FY24E. The margins for the quarter declined majorly, led by the decline in non-par segment contribution. However, IPRU believes margins are already at their peak and will remain focused on increasing the absolute VNB going ahead. The persistency ratio for the company witnessed improvement across all the cohorts. We expect GWP to grow at a CAGR of 11.5% over FY23-25E, while margins to sustain at 31.5% for FY24-25E levels led by scaling up the new product pipeline and improving the contribution of the expanded distribution channels. Since our last update, the ICICI Prudential Life Insurance share has been appreciated by 23.4%, which implies P/EV at 1.6x FY25E. **We assign a 2.0x P/EV (earlier 1.75x P/EV of FY24E) on FY25E EVPS of INR 332.5 and a VNB multiple of 13.6x to arrive at a weighted average Target Price of INR 665 per share (earlier INR 570) (50:50 weights on the P/EV and appraisal value methodology); indicating a 21.5% upside from the CMP. Accordingly, we re-iterate our “BUY” rating on the shares of ICICI Prudential Life Insurance Ltd.**

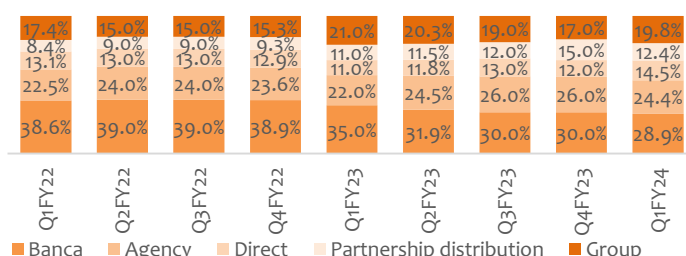
Gross Written Premium – Muted growth



Product mix on APE basis (%)

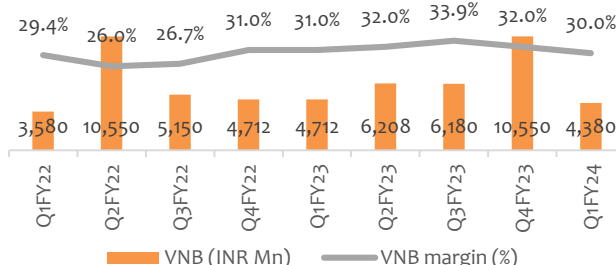


Channel mix on APE basis (%)



Source: Company, KRChoksey Research

VNB and margins reported decline



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ICICI Prudential Life Insurance Ltd.

KEY FINANCIALS

Exhibit 1: Revenue Account/Policy Holder's Account

In Mn	FY21	FY22	FY23	FY24E	FY25E
Gross premiums	3,57,328	3,74,580	3,99,328	4,38,507	4,96,379
Reinsurance ceded	7,595	11,367	13,733	8,770	9,928
Net premiums	3,49,734	3,63,213	3,85,595	4,29,737	4,86,451
Net income from investments	4,91,057	2,72,432	1,19,186	2,35,975	2,61,761
Total income	8,40,791	6,35,645	5,04,781	6,65,712	7,48,213
Commission expenses	15,002	16,729	18,639	24,118	27,301
Operating expenses	26,883	36,730	45,832	54,813	62,047
Service tax on linked charges	6,546	6,914	6,609	5,966	6,086
Other expenses/provisions	238	281	626	750	750
Operating profit	7,92,122	5,74,991	4,33,075	5,80,065	6,52,029
Benefits paid (net)	2,26,409	2,93,588	3,10,042	3,00,816	3,40,516
Interim Bonuses Paid	0	0	0	0	0
Change in reserves	5,43,241	2,57,838	98,170	2,57,500	2,85,000
Provisions	1,418	1,662	1,842	1,522	1,856
Surplus/(Deficit) After Tax	21,054	21,904	23,021	20,227	24,657

Source: Company, KRChoksey Research

Exhibit 2: Premium Schedule

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E
First year premiums	51,872	59,655	64,938	81,173	95,784
Single premiums	80,389	95,367	1,09,187	1,31,024	1,54,609
New business premium (NBP)	1,32,261	1,55,023	1,74,125	2,12,197	2,50,393
NBP growth (%)	5.9%	17.2%	12.3%	21.9%	18.0%
Renewal premiums	2,25,068	2,19,558	2,25,203	2,26,310	2,45,986
Renewal premiums growth (%)	7.5%	-2.4%	2.6%	0.5%	8.7%
Total premiums	3,57,328	3,74,580	3,99,328	4,38,507	4,96,379
Total premium growth (%)	6.9%	4.8%	6.6%	9.8%	13.2%
NBP – APE	59,911	77,330	86,400	94,275	1,11,245
NBP - APE growth (%)	-18.8%	29.1%	11.7%	9.1%	18.0%

Source: Company, KRChoksey Research

Exhibit 3: Profit & Loss Account/Shareholder's Account

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E
Transfer from Technical account	19,849	21,602	20,162	18,227	22,857
Income from investments & other income	7,690	10,136	8,774	8,258	10,149
Total income	27,538	31,738	28,936	26,485	33,006
Total expenses	16,724	23,833	19,967	18,265	19,368
PBT	10,814	7,906	8,969	8,220	13,638
Provision for tax	1,213	365	862	822	1,364
PAT	9,601	7,541	8,107	7,398	12,274

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E
Sources of funds					
Share capital	14,360	14,373	14,386	14,386	14,386
Reserves and surplus	70,671	75,915	83,730	90,240	1,01,041
Fair value change account - net	6,158	1,342	2,801	2,801	2,801
Shareholders' fund	91,189	91,631	1,00,916	1,07,426	1,18,227
Liabilities (Policyholder's Funds)					
Fair value change account - net	29,935	28,275	27,963	30,815	34,267
Revaluation reserve-Investment property	687	680	364	401	446
Policy liabilities	6,02,156	7,36,822	9,03,074	9,95,187	11,06,648
Provision for linked liabilities	10,58,551	11,61,143	11,82,735	13,03,374	14,49,352
Credit/[debit] fair value change account	2,19,153	2,44,271	1,69,589	1,86,887	2,07,818
Discontinued due to non-payment of premium	1,07,787	1,03,249	88,257	97,259	1,08,152
Sub-Total	20,18,269	22,74,439	23,71,981	26,13,923	29,06,682
Funds for future Appropriations	13,540	13,833	16,693	16,693	16,693
Total Sources of Funds	21,35,003	23,91,903	25,01,591	27,51,265	30,56,307
Application of Funds					
Investments					
- Shareholders	1,00,902	98,535	98,514	1,00,484	1,02,494
- Policyholders	6,35,726	7,73,880	9,43,110	11,50,594	14,03,724
Asset held to cover linked liabilities	13,85,491	15,08,663	14,40,581	14,83,798	15,28,312
Loans	6,628	9,401	13,141	15,769	18,923
Fixed assets - net block	4,572	4,872	5,956	5,956	5,956
Deferred tax asset	0	0	0	0	0
Net current assets	1,684	-3,449	290	-5,336	-3,102
Total Applications of Funds	21,35,003	23,91,903	25,01,591	27,51,265	30,56,307

Source: Company, KRChoksey Research

Exhibit 5: EV Calculation

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E
Opening EV	2,30,300	2,91,060	3,16,250	3,56,340	4,12,465
Unwind	16,610	20,850	27,080	28,507	32,997
VNB (or NBAP)	16,210	21,630	27,650	29,225	35,042
Operating variance	2,240	-10,560	150	780	780
EV Operating Profit (EVOP)	35,060	31,920	54,880	58,513	68,819
Non-operating variance	25,670	-4,370	-14,490	-1,500	-1,500
EV Profit	60,730	27,550	40,390	57,013	67,319
Net capital injection	30	-2,360	-300	-888	-1,473
Closing EV	2,91,060	3,16,250	3,56,340	4,12,465	4,78,311

Source: Company, KRChoksey Research

Exhibit 6: Key Financials

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E
Total premium	3,57,328	3,74,580	3,99,328	4,38,507	4,96,379
Net premium earned	3,49,734	3,63,213	3,85,595	4,29,737	4,86,451
NBP-APE	59,911	77,330	86,400	94,275	1,11,245
Combined ratio (%)	11.4%	14.3%	16.1%	18.0%	18.0%
Surplus/(Deficit)	21,054	21,904	23,021	20,227	24,657
VNB margin (%)	21.8%	28.0%	32.0%	31.0%	31.5%
PAT	9,601	7,541	8,107	7,398	12,274
EPS (Rs.)	6.7	5.2	5.6	5.1	8.5
EVPS (Rs.)	202.7	220.0	247.7	286.7	332.5
RoEV (%)	15.2%	11.0%	17.4%	16.4%	16.7%
RoE (%)	11.8%	8.2%	8.4%	7.1%	10.9%

Source: Company, KRChoksey Research

ICICI Prudential Life Insurance Ltd.

ICICI PruLife Insurance				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
21-Jul-23	548	665	BUY	Buy	More than 15%
21-Apr-23	444	570	BUY		
19-Jan-23	487	635	BUY	Accumulate	5% – 15%
18-Oct-22	513	680	BUY	Hold	0 – 5%
18-Jul-22	521	680	BUY	Reduce	-5% – 0
18-Apr-22	542	772	BUY		
19-Jan-22	574	772	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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