

**Linked products continue to see traction; Margins subdued**

Q2FY24 Result Update | Sector: Insurance | October 18, 2023

**BUY**

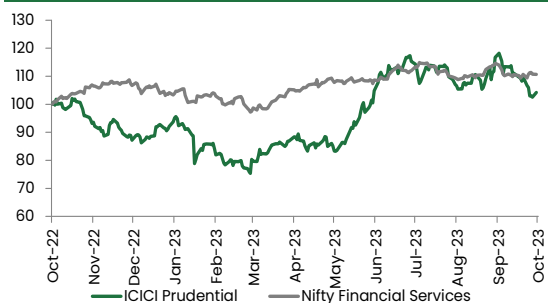
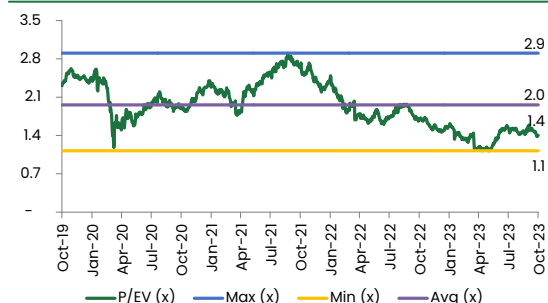
<b>CMP (Rs)</b>	<b>534</b>
<b>Target Price (Rs)</b>	<b>640</b>
<b>Potential Upside</b>	<b>19.9%</b>
<b>Sensex</b>	66,428
<b>Nifty</b>	19,812

**Key Stock data**

<b>BSE Code</b>	540133
<b>NSE Code</b>	ICICIPRULI
<b>Bloomberg</b>	IPRU:IN
<b>Shares o/s, Cr (FV 10)</b>	144.0
<b>Market Cap (Rs Cr)</b>	76,811.4
<b>3M Avg Volume</b>	1,800,487
<b>52 week H/L</b>	616/381

**Shareholding Pattern**

(%)	Dec-22	Mar-23	Jun-23
<b>Promotor</b>	73.4	73.4	73.3
<b>FII</b>	15.4	15.2	15.4
<b>DII</b>	5.9	6.1	6.3
<b>Public</b>	5.3	5.3	4.9

**1 Year relative price performance**

**1 year P/EV Forward (x)**

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**Slow paced revenue growth along with increased commission:** ICICI Prudential reported Q2FY24 net premium income growth of 4.6% YoY to Rs 10,022 Cr which was led by single premium which grew by 7% YoY to Rs 3,005 Cr. Annualized Premium Equivalent (APE) increased by 3% YoY to Rs 2,063 Cr remaining slightly below consensus. Net commission during the quarter increased by 87% YoY to Rs 771 Cr due to the regulatory norms leading to increase in overall cost ratio to 26.2% from 21.6% in Q2FY23. Owing to the increased costs, shareholder's account surplus/ (deficit) saw a de-growth of 42% YoY to Rs 301 Cr.

**Linked products continue to see traction:** The insurer continued to see an uptick in the linked products which increased by 13% YoY to Rs 927 Cr in the overall APE mix. Non-linked and annuity products continued to see the downward momentum as they saw a YoY decline of 7.6% and 6.7%, respectively on APE basis. The decline was mainly due to shift in consumer preference from non-linked to the linked products and the company saw a shift in the large ticket policies (more than Rs 5 lakhs premium) from non-linked to linked products. Protection plan growth during the quarter remained sluggish as the company encountered supply side challenges, however, expects protection plans to be back on track during FY24.

**Dip in margins:** Owing to the increased cost and continued shift in the product mix, Value of New Business (VNB) declined by 7.1% YoY to Rs 577 Cr. VNB margin during the quarter declined by 227bps YoY to 28%. The management remains positive has the margin will recover going forward due to the recovery in protection and annuity plans.

**Direct and partnership channels drive growth:** The bancassurance channel which contributes ~28% of the overall APE mix declined by 3% YoY to Rs 579 Cr mainly due to decline in premium from the parent ICICI Bank while it continued to grow its other banks channel which saw an increase of 13% YoY to Rs 296 Cr on APE basis. The company continued investment in partnership channels has paid off well as it grew by 24.6% to Rs 294 Cr on APE basis after slow Q1. The group channels also saw a de-growth of 11.8% to Rs 351 Cr on APE basis. The management expects agency and partnership channels to continue to drive growth going forward in FY24.

**Valuations:** We remain positive on ICICI Prudential as the company continues to see growth in the linked products and its continuous focus on expanding capacity. The expanding capacity strategy is expected to see results in the coming quarters which will lead to an increase in the market share by the company. However, on the margin front cautiousness continues as it saw a dip during the quarter. On financial front, we expect APE/NBP/VNB to grow at 19% each CAGR over FY23-25E but margin growth slightly revised downwards to 32% for FY25E. Thus, maintaining a **Buy** rating our target price is revised slightly lower to **Rs 640** valuing the company at 1.8x of its FY25E embedded value (EV) per share.

**Financial Summary - consolidated**

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Gross premiums	37,458	39,933	43,216	47,301
<b>Total Income</b>	<b>63,565</b>	<b>50,478</b>	<b>52,094</b>	<b>57,375</b>
Total Benefits	54,929	40,606	41,708	45,708
Surplus/(Deficit) after tax	2,190	1,102	2,955	3,556
<b>APE</b>	<b>7,733</b>	<b>8,640</b>	<b>10,116</b>	<b>12,244</b>
VNB	2,163	2,765	3,226	3,912
New business premium (NBP)	15,036	16,922	19,904	24,066
Embedded value (EV)	31,630	35,639	43,135	53,563
<b>EV per share</b>	<b>219.2</b>	<b>247.0</b>	<b>298.9</b>	<b>371.2</b>
<b>P/EV</b>	<b>2.43</b>	<b>2.16</b>	<b>1.79</b>	<b>1.44</b>

Source : RBL Research

**Con-call highlights:** 1) The company announced launch of "ICICI Pru Stake" which is first of its kind tool using data analytics to enhance customer experience. 2) During the quarter, the company launched constant maturity funds which is first ULIP debt fund with constant maturity. It also launched other products such as ICICIPRU Gift Pro, i-Shield and Protect N Gain. These product offer unique proposition with a mix of protection as well as income gains. 3) The company aims to become the most partnerable insurer and the team has the capability to onboard any distribution partner in less than 2 weeks. 4) In an effort to increase the capacity, the company added 18,000 agents during HIFY24. 5) During HIFY24, it added 105 non bank and 1 bank partner to increase the bancassurance channel. 6) The decline in annuity products was primarily due to the shift in the customer preference to bank's fixed deposits offering higher rate of interest over single premium annuity products. However, the decline in single premium products has been mitigated by growth in regular premium annuity products. 7) Retail protection product registered a strong growth of 73.7%. 8) The insurer is seeing increased traction of part guarantee products in the guarantee portfolio which is a high margin product for the company.

**Policyholders account - consolidated**

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y %	Q1FY24	Q-o-Q %
First year premium	1,529.0	1,444.4	5.9	1,022.7	49.5
Renewal premium	5,891.7	5,642.6	4.4	4,157.5	41.7
Single premium	3,005.2	2,808.6	7.0	2,194.6	36.9
<b>Total premium</b>	<b>10,425.9</b>	<b>9,895.6</b>	<b>5.4</b>	<b>7,374.8</b>	<b>41.4</b>
<b>Net premium income</b>	<b>10,022.4</b>	<b>9,581.7</b>	<b>4.6</b>	<b>7,020.0</b>	<b>42.8</b>
Income from investments	6,938.9	12,818.9	-45.9	16,030.9	-56.7
Other income	51.8	38.0	36.1	44.7	15.9
Transfer of funds from shareholders ac	513.7	465.7	10.3	445.6	15.3
<b>Total</b>	<b>17,526.9</b>	<b>22,904.4</b>	<b>-23.5</b>	<b>23,541.2</b>	<b>-25.5</b>
Commission					
First year premium	367.9	235.7	56.1	221.1	66.4
Renewal premium	111.4	107.5	3.7	75.2	48.2
Single premium	163.4	38.5	324.2	71.3	129.3
<b>Total commission</b>	<b>642.7</b>	<b>381.7</b>	<b>68.4</b>	<b>367.6</b>	<b>74.9</b>
<b>Net commission</b>	<b>770.9</b>	<b>413.1</b>	<b>86.6</b>	<b>383.5</b>	<b>101.0</b>
Expenses of management	1,923.1	1,466.6	31.1	1,494.7	28.7
Other expenses	169.2	164.2	3.0	153.2	10.4
Provision for taxes	28.7	42.6	-32.6	8.8	224.4
Benefits paid	9,464.3	8,021.9	18.0	7,945.8	19.1
Change in actuarial liability	5,640.8	12,686.0	-55.5	13,738.0	-58.9
<b>Total</b>	<b>17,226.0</b>	<b>22,381.2</b>	<b>-23.0</b>	<b>23,340.5</b>	<b>-26.2</b>
<b>Surplus/(deficit)</b>	<b>300.8</b>	<b>523.2</b>	<b>-42.5</b>	<b>200.7</b>	<b>49.9</b>

Net premium income increased by 4.6% YoY

Net commission was up by 86.6% YoY

Source : RBL Research

Linked APE saw a growth of 13% YoY

APE posted a growth of 3.3% YoY

Unit linked mix grew by 389bps YoY

Direct and partnership channels remained strong with a YoY growth of 19.3% and 24.6%

Direct and partnership channels in overall distribution mix increased by 195bps/245bps YoY

61th month persistency ratio declined by 220 bps YoY

VNB margin declined by 227bps YoY

**Business parameters - consolidated**

Particulars	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
<b>APE Mix (Rs cr)</b>					
<b>Linked</b>	<b>927.0</b>	<b>820.0</b>	<b>13.0</b>	<b>566.0</b>	<b>63.8</b>
Non-linked	532.0	576.0	-7.6	404.0	31.7
Annuity	126.0	135.0	-6.7	91.0	38.5
Group funds	88.0	87.0	1.1	55.0	60.0
<b>Savings</b>	<b>1,673.0</b>	<b>1,618.0</b>	<b>3.4</b>	<b>1,116.0</b>	<b>49.9</b>
Protection	390.0	380.0	2.6	344.0	13.4
<b>Total APE</b>	<b>2,063.0</b>	<b>1,998.0</b>	<b>3.3</b>	<b>1,460.0</b>	<b>41.3</b>
<b>APE Mix (%)</b>					
<b>Unit Linked</b>	<b>44.9</b>	<b>41.0</b>	<b>389bps</b>	<b>38.8</b>	<b>617bps</b>
Non-linked	25.8	28.8	-304bps	27.7	-188bps
Annuity	6.1	6.8	-65bps	6.2	-13bps
Group funds	4.3	4.4	-9bps	3.8	50bps
<b>Savings</b>	<b>81.1</b>	<b>81.0</b>	<b>11bps</b>	<b>76.4</b>	<b>466bps</b>
Protection	18.9	19.0	-11bps	23.6	-466bps
<b>Distribution Mix (Rs cr)</b>					
Bancassurance	579	597	-3.0	423	36.9
Agency	542	520	4.2	357	51.8
<b>Direct</b>	<b>297</b>	<b>249</b>	<b>19.3</b>	<b>212</b>	<b>40.1</b>
<b>Partnership distribution</b>	<b>294</b>	<b>236</b>	<b>24.6</b>	<b>181</b>	<b>62.4</b>
Group	351	398	-11.8	289	21.5
<b>Total APE</b>	<b>2,063</b>	<b>2,000</b>	<b>3.2</b>	<b>1,462</b>	<b>41.1</b>
<b>Distribution Mix (%)</b>					
Bancassurance	28.1	29.9	-178bps	28.9	-87bps
Agency	26.3	26.0	27bps	24.4	185bps
<b>Direct</b>	<b>14.4</b>	<b>12.5</b>	<b>195bps</b>	<b>14.5</b>	<b>-10bps</b>
<b>Partnership distribution</b>	<b>14.3</b>	<b>11.8</b>	<b>245bps</b>	<b>12.4</b>	<b>187bps</b>
Group	17.0	19.9	-289bps	19.8	-275bps
<b>Persistency ratio (%)</b>					
13th month	85.6	83.2	240bps	84.4	120bps
<b>61st month</b>	<b>61.9</b>	<b>64.1</b>	<b>-220bps</b>	<b>61.4</b>	<b>50bps</b>
<b>Solvency Ratio (%)</b>					
Annual premium equivalent	2,062.0	1,999	3.2	1,461	41.1
<b>New business premium</b>	<b>4,359.0</b>	<b>4,175</b>	<b>4.4</b>	<b>3,051</b>	<b>42.9</b>
<b>Value of new business</b>	<b>577.0</b>	<b>621</b>	<b>-7.1</b>	<b>438</b>	<b>31.7</b>
VNB margin (%)	28.8	31.1	-227bps	30.0	-118bps

Source : RBL Research

**Shareholders account - consolidated**

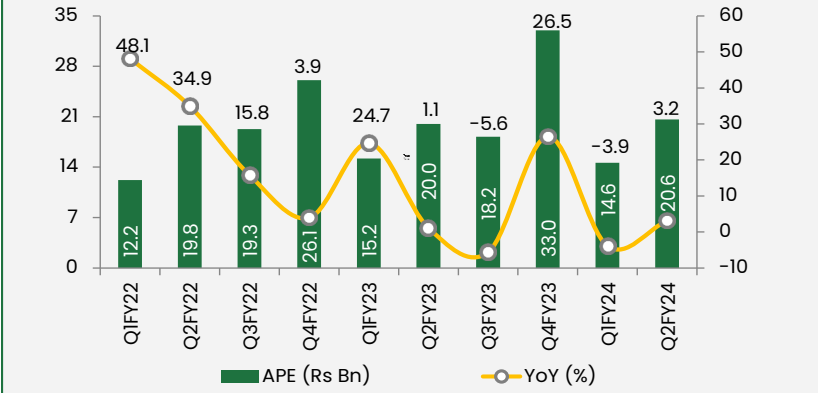
Particulars, Rs cr	Q2FY24	Q2FY23	YoY (%)	Q1FY24	Q-o-Q (%)
<b>Transfer from policyholders account</b>	<b>364.7</b>	<b>486.1</b>	<b>-25.0</b>	<b>379.6</b>	<b>-3.9</b>
Investment income	427.0	204.3	109.0	331.7	28.7
Other income	4.3	3.2	32.5	1.9	128.9
Expenses other than insurance business	34.5	27.7	24.7	23.2	48.9
<b>Transfer of funds to policyholders ac</b>	<b>513.7</b>	<b>465.7</b>	<b>10.3</b>	<b>445.6</b>	<b>15.3</b>
<b>Profit/(loss) before tax</b>	<b>247.7</b>	<b>200.2</b>	<b>23.7</b>	<b>208.5</b>	<b>18.8</b>
Provision for taxes	3.8	0.1	-	1.6	141.4
<b>PAT</b>	<b>243.9</b>	<b>199.5</b>	<b>22.4</b>	<b>206.9</b>	<b>17.9</b>

Source : RBL Research

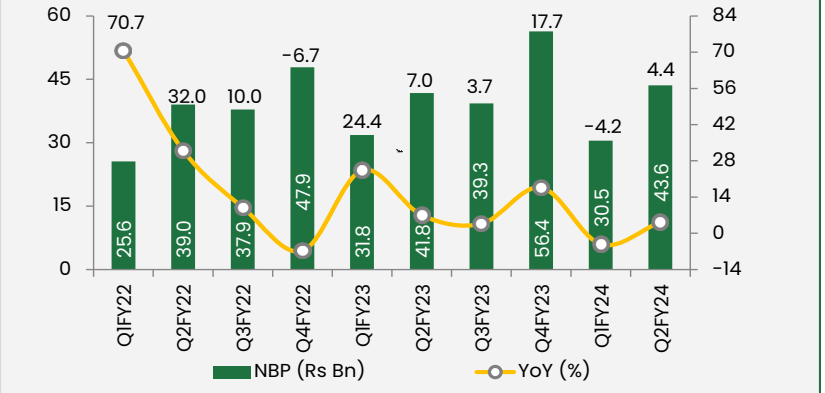
PAT during the quarter grew by 22.4% YoY

Story in charts

APE grew by 3.2% YoY in Q2FY24

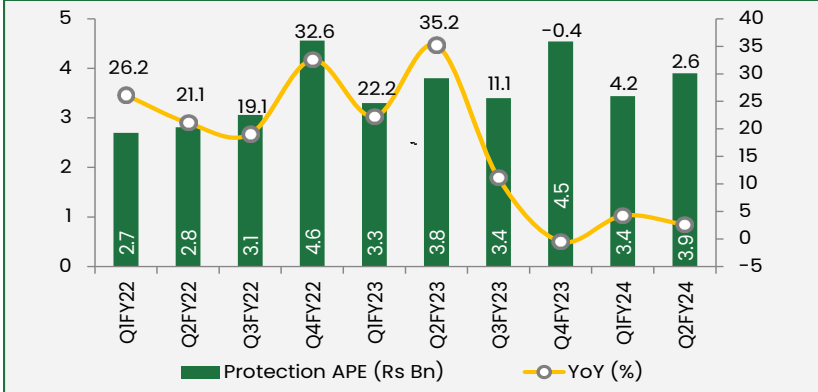


NBP grew by 4.4% YoY during Q2FY24

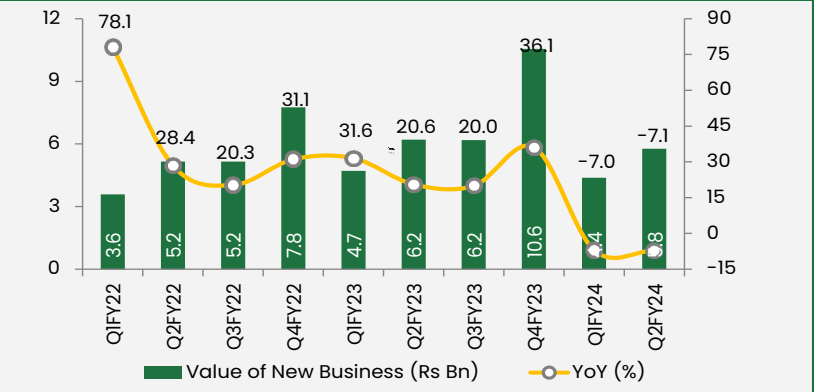


Source : RBL Research

Protection APE grew by 2.6% YoY in Q2FY24

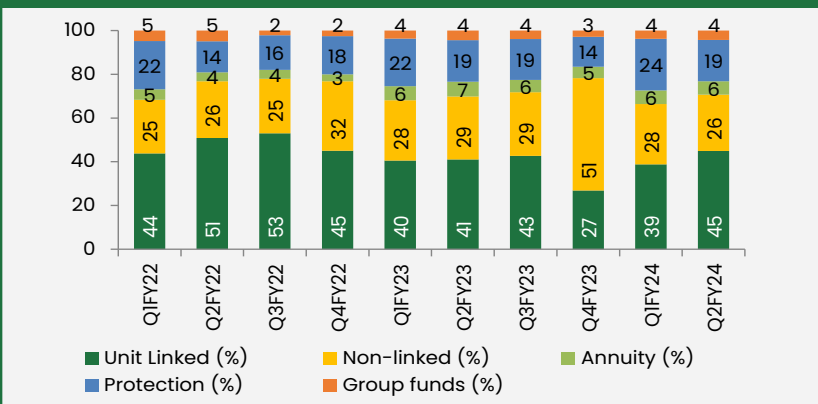


VNB declined by 7.1% YoY in Q2FY24

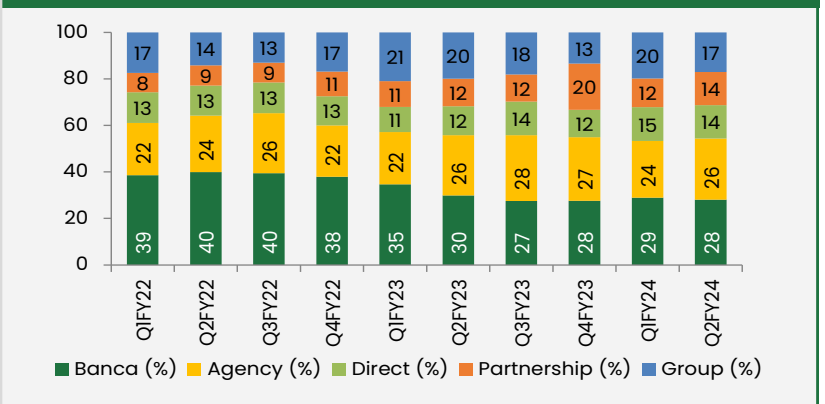


Source : RBL Research

Product mix with increasing share of unit linked products

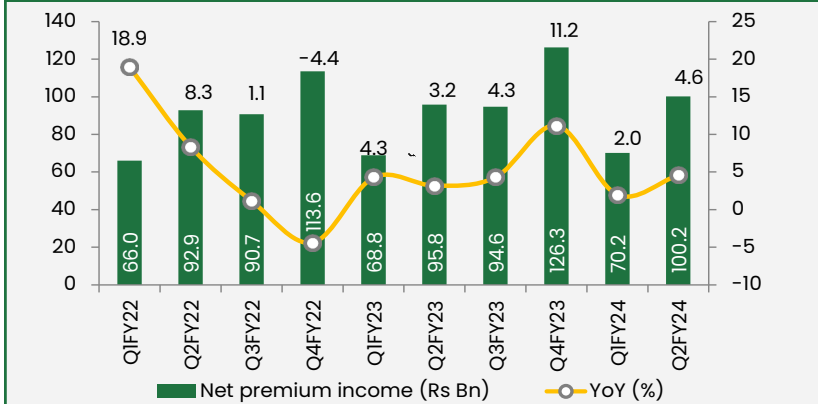


Distribution mix with growing share of agency and partnership channels

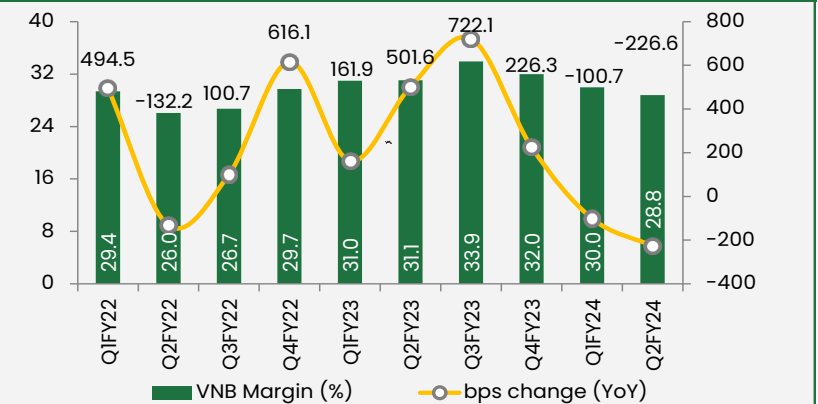


Source : RBL Research

Net premium income saw a growth of 4.6% YoY in Q2FY24



VNB margin declined by 227bps in Q2FY24



Source : RBL Research

**Policyholders account – consolidated**

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
<b>Gross premiums</b>	<b>37,458</b>	<b>39,933</b>	<b>43,216</b>	<b>47,301</b>
<b>Net premiums</b>	<b>36,955</b>	<b>38,560</b>	<b>41,730</b>	<b>45,674</b>
Investment income	25,082	10,116	8,346	9,319
Contribution from the Shareholders account	2,161	1,802	2,019	2,382
<b>Total Income</b>	<b>63,565</b>	<b>50,478</b>	<b>52,094</b>	<b>57,375</b>
Commissions	1,673	1,864	1,913	2,096
Operating expenses	4,392	5,307	5,654	6,196
Benefits paid	29,145	30,789	32,591	37,536
Change in valuation of life reserves	25,784	9,817	9,117	8,172
<b>Total Benefits</b>	<b>54,929</b>	<b>40,606</b>	<b>41,708</b>	<b>45,708</b>
<b>Surplus/(Deficit) before tax</b>	<b>2,357</b>	<b>2,486</b>	<b>2,819</b>	<b>3,374</b>
Tax	-166	-1,384	135	182
<b>Surplus/(Deficit) after tax</b>	<b>2,190</b>	<b>1,102</b>	<b>2,955</b>	<b>3,556</b>

Source : RBL Research

**Balance Sheet – consolidated**

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Share capital	1,437	1,439	1,439	1,439
Reserves and surplus	7,586	8,371	9,528	10,637
Fair value change account	134	280	319	356
<b>Shareholder's equity</b>	<b>9,158</b>	<b>10,090</b>	<b>11,285</b>	<b>12,431</b>
Borrowings	1,200	1,200	1,200	1,200
Fair value change account	2,895	2,833	2,885	2,989
Policy liabilities	224,548	234,365	244,057	254,495
Funds for future appropriations	1,383	1,669	1,738	1,811
<b>Total liabilities</b>	<b>230,027</b>	<b>240,067</b>	<b>249,880</b>	<b>260,495</b>
<b>Total liabilities and shareholders equity</b>	<b>239,185</b>	<b>250,157</b>	<b>261,165</b>	<b>272,926</b>
Shareholders investments	9,847	9,847	10,493	10,808
Policyholders investments	77,388	94,311	99,026	104,275
Unit linked investments	150,866	144,058	146,737	152,014
Loans	940	1,314	1,419	1,575
Fixed assets	488	596	598	604
Net current assets/(liabilities)	-345	30	2,268	3,053
<b>Total assets</b>	<b>239,185</b>	<b>250,157</b>	<b>261,165</b>	<b>272,926</b>

Source : RBL Research

**Shareholders account – consolidated**

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
<b>Transfer from policyholder's a/c</b>	<b>2,160</b>	<b>2,016</b>	<b>2,097</b>	<b>2,212</b>
Investment income	1,014	880	678	773
Other income	12	14	15	16
<b>Total income</b>	<b>3,186</b>	<b>2,910</b>	<b>3,119</b>	<b>3,379</b>
Operating expenses	111	115	105	118
Contribution to the policyholders a/c	2,161	1,802	1,718	1,975
<b>Profit before tax</b>	<b>795</b>	<b>900</b>	<b>1,297</b>	<b>1,286</b>
Tax	-36	-87	55	69
<b>Profit after tax</b>	<b>759</b>	<b>814</b>	<b>1,352</b>	<b>1,355</b>

Source : RBL Research

**Key Ratios – consolidated**

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
<b>VNB</b>	<b>2,163</b>	<b>2,765</b>	<b>3,226</b>	<b>3,912</b>
VNB growth (%)	28%	32%	17%	21%
<b>VNB margin (%)</b>	<b>28%</b>	<b>32%</b>	<b>32%</b>	<b>32%</b>
<b>APE</b>	<b>7,733</b>	<b>8,640</b>	<b>10,116</b>	<b>12,244</b>
APE growth (%)	20%	12%	17%	21%
<b>NBP</b>	<b>15,036</b>	<b>16,922</b>	<b>19,904</b>	<b>24,066</b>
NBP growth (%)	15%	13%	18%	21%
<b>EV movement, Rs Cr</b>	<b>FY22</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>
<b>Opening EV</b>	<b>29,110</b>	<b>31,630</b>	<b>35,639</b>	<b>43,135</b>
<b>Value of New Business</b>	<b>2,163</b>	<b>2,765</b>	<b>3,226</b>	<b>3,912</b>
Unwind	2,085	2,708	2,887	3,235
Operating assumption	-91	-161	-181	-220
Operating variance	-964	-	-	-
<b>EVOP</b>	<b>3,193</b>	<b>5,488</b>	<b>5,931</b>	<b>6,927</b>
Economic assumption change	-437	-1,449	2,187	4,097
Net capital injection	-236	-30	-623	-597
<b>Embedded value (EV)</b>	<b>31,630</b>	<b>35,639</b>	<b>43,135</b>	<b>53,563</b>
<b>Return on embedded value (ROEV)</b>	<b>11%</b>	<b>17%</b>	<b>17%</b>	<b>16%</b>

Source : RBL Research

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