

Q3FY24

ICICI Prudential Life Insurance Ltd.



ICICI Prudential Life Insurance Ltd.
Cautiously on business growth and margin recovery

CMP INR 486	Target INR 545	Potential Upside 12.1%	Market Cap (INR Mn) 7,01,307	Recommendation ACCUMULATE	Sector Life Insurance
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Result Highlights Q3FY24:

- In Q3FY24, the Gross Written Premium (GWP) grew 5.2% YoY but fell by 1.4% QoQ to INR 102,850 Mn. The premium was lower by 2.4% than our estimates owing to lower-than-expected single premium segment.
- The Annualized Premium Equivalent (APE) for Q3FY24 stood at INR 19,070 Mn, a growth of 4.7% YoY (a fall of 7.5% QoQ). The APE was higher by 1.6% than our estimates. In 9MFY24, the APE growth was 1.7% YoY at INR 54,300 Mn.
- The VNB for Q3FY24 declined by 29.4% YoY/ 24.4% QoQ to INR 4,360 Mn. VNB margins were 22.9% for the quarter as against 28.0% in Q2FY24 (vs 33.9% in Q3FY23). The margins were lower than our expectations of 29.0% due to significant change in the product mix vs our expectation. The margins for 9MFY24 stood at 26.7%, a decline of 529 bps YoY.
- The total assets under management of the company were INR 2,867 Bn as of December 31, 2023, a growth of 13.8% YoY/ 5.4% QoQ (1.2% higher than our expectations). As of December 31, 2023, the solvency ratio was 197.0% against the regulatory requirement of 150%.

MARKET DATA

Shares outs (Mn)	1,440
Equity Cap (INR Mn)	110,751
Mkt Cap (INR Mn)	7,01,307
52 Wk H/L (INR)	616/381
Volume Avg (3m K)	1,883
Face Value (INR)	10
Bloomberg Code	IPRU : IN

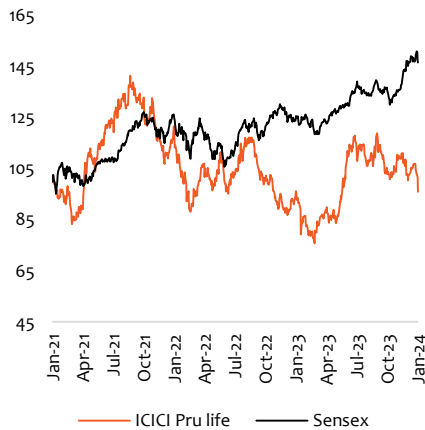
KEY FINANCIALS

Particulars (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
GWP	374,580	399,328	419,723	461,418	510,115
PAT	7,541	8,107	8,159	9,234	9,631
EPS (INR)	5.2	5.6	5.7	6.4	6.7
NBP-APE	77,330	86,400	78,673	90,140	103,814
VNB	21,630	27,650	21,242	26,141	31,144
VNB Margin (%)	28.0%	32.0%	27.0%	29.0%	30.0%
EVPS (INR)	220.0	247.7	281.4	321.5	368.2

Source: Company, KRChoksey Research

Sharp fall in VNB margins led by the product mix and higher operating expenses: In Q3FY24, IPRU reported a VNB margin decline of 1,107 bps YoY/512 bps QoQ at 22.9%. For the 9MFY24, the margins declined by 529 bps to 26.7%. A product mix shift and a higher expense ratio for the period primarily contributed to the decline in margin. The market buoyancy has led to higher growth in the ULIP portfolio, which has a lower margin profile compared to the Company average. IPRU has also been experiencing a shift in product mix from greater than INR 0.5 Mn non-PAR cases, moving towards participating and unit-linked products. There has also been an intensive mix of traditional plans moving from non-par to par products, which has led to the PAR product mix being higher than the non-PAR product mix for 9MFY24. Further, IPRU has seen competitive pressure on pricing in both the non-PAR business as well as the annuity business. Additionally, on the protection side, even though retail protection and credit life businesses have grown during the year, group term business has declined from a high base. The higher expense ratio for the year has also impacted margins. The redesign of the commission structure has led to an increase in commission expenses. IPRU has also continued investment in capacity creation to support future growth, specifically in the proprietary channel fact agency and direct, as well as in IT and brand elements. This has led to an increase in operating expenses. The overall cost ratio stood at 25.3% in 9MFY24, while the cost ratio for the savings line of business stood at 16.3% in 9MFY24. The total expenses (including commission and interest on sub debt) increased by 24.8% YoY to INR 58.6 Bn in 9MFY24, which includes a commission expense rise of 94.2% YoY to INR 21.6 Bn in 9MFY24.

Decline in Single premium was offset by higher growth in regular premium segment, driving the overall premium growth: IPRU has reported its GWP growth at 5.2% YoY but fell 1.4% QoQ in Q3FY24. The muted YoY growth was led by flat growth seen in the single premium during the quarter, which led to a 4.4% YoY growth in NBP. The single premium annuity segment reported a decline as customers postponed purchases given high APE rates currently. However, the strong growth in regular premiums helped to offset the decline in single premium business. APE continued to see subdued growth of 4.7% YoY (-7.5% QoQ). The retail protection APE continued to see a healthy growth of 26.5% YoY, while the ULIP APE grew by 8.9% YoY. The group fund reported a significant fall of 15.5% YoY, which led to modest performance from an overall APE perspective. On the distribution front, the bancassurance APE reported a 2.4% YoY growth, while the agency APE witnessed healthy traction by growing at 12.0% YoY. IPRU continues to build capacity and has added more than 28,750 agents in 9MFY24 spread across geographies. According to the management, the Company has already surpassed the FY23 APE and expects double-digit APE growth in Q4FY24E.

SHARE PRICE PERFORMANCE

MARKET INFO

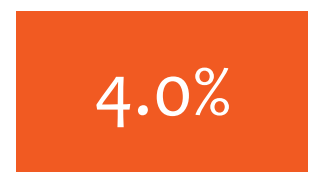
SENSEX	71,187
NIFTY	21,462

SHARE HOLDING PATTERN (%)

Particulars	Dec-23	Sep-23	Jun-23
Promoters	73.3	73.3	73.4
FIs	14.3	15.5	15.2
DIs	7.3	6.4	6.4
Others	5.1	4.8	5
Total	100	100.0	100.0



APE CAGR between FY23 and FY26E



VNB CAGR between FY23 and FY26E

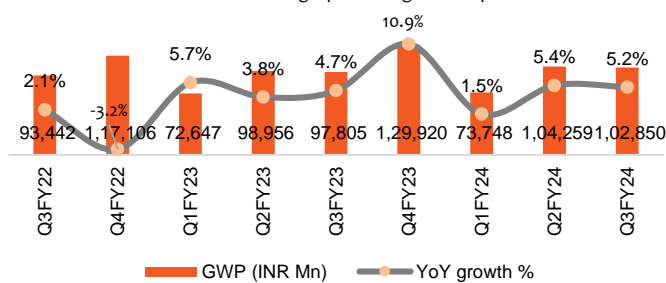
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Key Concall highlights:

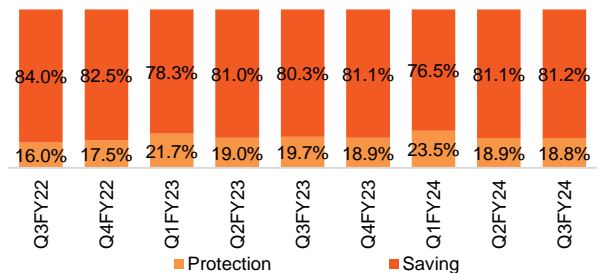
- On the regulatory front, IRDAI has issued an exposure draft on product regulations for public consultation. One of the key elements proposed is the concept of a premium threshold for non-yield sales products. Beyond this threshold, no surrender charges shall be levied on the remaining premium. IPRU believes that any changes leading to a better product proposition for the customers would be a great opportunity for the insurance industry.
- IPRU has launched ICICI's new Guaranteed Pension Plan Flexi with Benefit Enhancer, industry's first annuity plan that provides customers with an option to receive a 100% refund of premiums paid at any time starting from the day of purchase. Significantly, this product is in line with the proposed regulations, which aims to ensure that the customer receives a fair and appropriate surrender value, particularly in the event of an early exit from the policy.
- IPRU has launched a slew of innovative products, such as ICICI Pru Gold, GIFT Pro, iShield, and Protect N Gain.
- It has also launched industry's first unique debt fund, with constant maturity as a theme.
- The Company launched waiver of premium rider, which allows customers to get policy benefits even if an unfavorable event occurs to them.
- On the protection side, it has launched ICICI Pru iProtect Smart Life Continuity Option, which is the industry first feature where the customer has the flexibility to either receive the sum insured as a lump sum or a monthly income for a duration of up to 30 years or a combination of both.
- The Company has continued investing in capacity creation to support future growth, specifically in the proprietary channel fact agency and direct as well as in IT and band element.
- On the process side, with a set of capabilities encompassing digital tools and analytical capabilities, the Company was able to issue approximately ~40.0% of the policies on the same day for the same time of business in Q3FY24. Complementing this, it has launched an initiative of crediting commission on the same day of the policy issuance for its top tier advisors.
- The Company is setting up the platform for long-term sustainable growth through the acquisition of new partners and new sourcing channels.
- The Company's recently developed AI and ML-backed model has been assisting us to mitigate the broad and early-game risk. This has led to 70.0% reduction in cases with higher propensity for fraud and early claims for savings policies for the period October-23 to November-23.
- The Company continues to add new partnerships and increase share of stock in existing partnerships. It has a total of 42 bank tie-ups with access to more than 20,000 bank branches and more than 1,015 non-bank partnerships with an addition of 144 non-bank partners during 9MFY24.
- The Company believes that at the current level of under penetration, retail protection business growth is a multi-billion-dollar opportunity, while credit life and group term business also offer significant opportunity as India has witnessed growth in credit and the economy.
- The increase in new business commission is attributed to the redesign of commission structure pursuant to the flexibility provided in RBI payment of commission regulations. This year will continue to be a transition year and the Company expects the rates to settle down as it moves to the next fiscal year.
- On asset quality, 96.4% of its fixed income portfolio is invested in fixed income instruments that are rated sovereign or AAA and it continues to maintain a track record of not having a single NPA since inception. Of its liability profile, 73.9% of liabilities largely pass on market performance to customers.
- There has been an intensive mix of traditional plans moving from non-participating to participating products, which has led to the PAR product mix to be higher than the non-PAR product mix for 9MFY2024. Further, the Company has seen competitive pressure on pricing in both the non-PAR business as well as the annuity business.
- The management has guided for a double-digit growth in APE in Q4FY24E driven by combination of both product mix and distribution mix.

Valuation and view: IPRU reported a disappointing performance in Q3FY24 across all parameters. The subdued business momentum resulted in a sharp fall in the VNB margins. However, the Company is expected to see a recovery in business momentum in Q4FY24E while it is expected to see normalized growth in FY25E. The shift in the product mix towards low-yielding product segments led to lower margins, which is an industry-wide phenomenon in 9MFY24 but in addition to this, the Company also saw higher operating expenses, which was another reason for the fall in margins. IPRU has been aggressively investing in the expansion of its products and distribution channels, along with improving its digital capabilities. We expect operational expenses to remain elevated in the near term on the back of the restructuring of commissions across the industry and continued investments. The persistency ratios continued to see an improvement across all the cohorts. The 13th month persistency improved from 85.3% in 9MFY23 to 87.4% in 9MFY24, while the 61st Month stood at 64.9%, an improvement of 70 bps QoQ. We expect GWP to grow at a CAGR of 8.5% over FY23-25E. We remain cautious on the growth outlook of the Company as there are multiple headwinds impacting the overall trajectory. We have cut our margin expectations to 27.0%/ 29.0% for FY26E/FY25E from 32.0%/ 30.3% and expect it to be around 30.0% in FY26E on the back of gradual scale up in non-linked segments and decline in the operating expenses. Since our last update, the ICICI Prudential Life Insurance share has corrected by 6.7%, which implies P/EV at 1.5x/ 1.3x for FY25E/ FY26E. **We assign a 1.5x P/EV on FY26E EVPS of INR 368.2 and a VNB multiple of 8.2x to arrive at a weighted average Target Price of INR 545 per share (earlier INR 625) (50:50 weights on the P/EV and appraisal value methodology); indicating a 12.1% upside from the CMP. Accordingly, we downgrade our rating from "BUY" to "ACCUMULATE" on the shares of ICICI Prudential Life Insurance Ltd.**

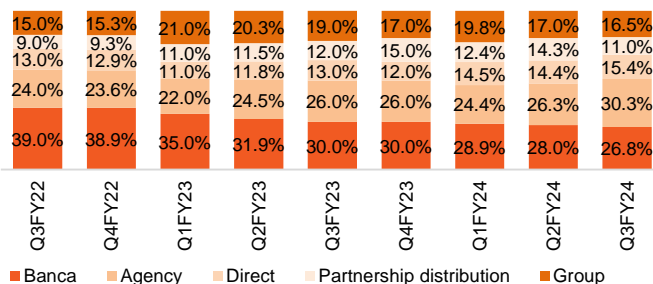
Gross Written Premium – Single premium growth reports a decline



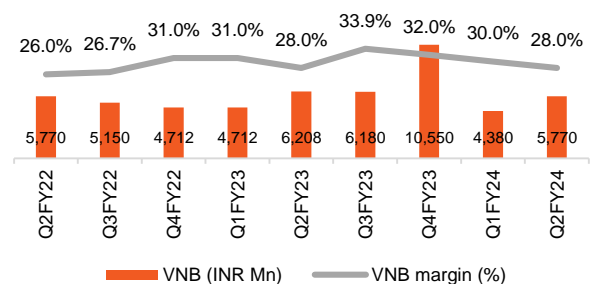
Product mix on APE basis (%)



Channel mix on APE basis (%)



VNB and margins continue to be strong



Source: Company, KRChoksey Research

ICICI Prudential Life Insurance Ltd.
KEY FINANCIALS
Exhibit 1: Revenue Account/Policy Holder's Account

Particulars (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Gross premiums	374,580	399,328	419,723	461,418	510,115
Reinsurance ceded	11,367	13,733	14,690	13,843	15,303
Net premiums	363,213	385,595	405,033	447,575	494,811
Net income from investments	272,432	119,186	451,239	220,083	229,630
Total income	635,645	504,781	856,272	667,658	724,442
Commission expenses	16,729	18,639	31,479	32,299	35,708
Operating expenses	36,730	45,832	50,367	55,370	61,214
Service tax on linked charges	6,914	6,609	5,966	6,915	7,054
Other expenses/provisions	281	626	750	750	750
Operating profit	574,991	433,075	767,710	572,324	619,716
Benefits paid (net)	293,588	310,042	291,624	335,681	371,108
Interim Bonuses Paid	0	0	0	0	0
Change in reserves	257,838	98,170	457,500	215,000	226,000
Provisions	1,662	1,842	1,301	1,515	1,583
Surplus/(Deficit) After Tax	21,904	23,021	17,285	20,127	21,025

Source: Company, KRChoksey Research

Exhibit 2: Premium Schedule

Particulars (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
First year premiums	59,655	64,938	67,536	77,666	90,093
Single premiums	95,367	109,187	111,371	124,735	137,209
New business premium (NBP)	155,023	174,125	178,906	202,401	227,301
NBP growth (%)	17.2%	12.3%	2.7%	13.1%	12.3%
Renewal premiums	219,558	225,203	240,817	259,016	282,813
Renewal premiums growth (%)	-2.4%	2.6%	6.9%	7.6%	9.2%
Total premiums	374,580	399,328	419,723	461,418	510,115
Total premium growth (%)	4.8%	6.6%	5.1%	9.9%	10.6%
NBP – APE	77,330	86,400	78,673	90,140	103,814
NBP - APE growth (%)	29.1%	11.7%	-8.9%	14.6%	15.2%

Source: Company, KRChoksey Research

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

Particulars (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Transfer from Technical account	21,602	20,162	15,035	18,127	19,025
Income from investments & other income	10,136	8,774	11,940	10,149	10,352
Total income	31,738	28,936	26,975	28,276	29,377
Total expenses	23,833	19,967	17,909	18,016	18,676
PBT	7,906	8,969	9,065	10,260	10,701
Provision for tax	365	862	907	1,026	1,070
PAT	7,541	8,107	8,159	9,234	9,631

Source: Company, KRChoksey Research

ICICI Prudential Life Insurance Ltd.
Exhibit 4: Balance Sheet

Particulars (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Sources of funds					
Share capital	14,373	14,386	14,386	14,386	14,386
Reserves and surplus	75,915	83,730	91,073	99,384	108,051
Fair value change account - net	1,342	2,801	2,801	2,801	2,801
Shareholders' fund	91,631	100,916	108,259	116,570	125,238
Liabilities (Policyholder's Funds)					
Fair value change account - net	28,275	27,963	30,815	34,267	38,105
Revaluation reserve-Investment property	680	364	401	446	496
Policy liabilities	736,822	903,074	995,187	1,106,648	1,230,593
Provision for linked liabilities	1,161,143	1,182,735	1,303,374	1,449,352	1,611,679
Credit/[debit] fair value change account	244,271	169,589	186,887	207,818	231,094
Discontinued due to non-payment of premium	103,249	88,257	97,259	108,152	120,265
Sub-Total	2,274,439	2,371,981	2,613,923	2,906,682	3,232,230
Funds for future Appropriations	13,833	16,693	16,693	16,693	16,693
Total Sources of Funds	2,391,903	2,501,591	2,752,098	3,054,650	3,390,513
Application of Funds					
Investments					
- Shareholders	98,535	98,514	100,484	102,494	104,544
- Policyholders	773,880	943,110	1,150,594	1,403,724	1,712,543
Asset held to cover linked liabilities	1,508,663	1,440,581	1,479,476	1,523,861	1,545,195
Loans	9,401	13,141	15,769	18,923	22,708
Fixed assets - net block	4,872	5,956	5,956	5,956	5,956
Deferred tax asset	0	0	0	0	0
Net current assets	-3,449	290	-181	-308	-433
Total Applications of Funds	2,391,903	2,501,591	2,752,098	3,054,650	3,390,513

Source: Company, KRChoksey Research

EV Calculation (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Opening EV	291,060	316,250	356,340	405,303	462,974
Unwind	20,850	27,080	28,507	32,424	37,038
VNB (or NBAP)	21,630	27,650	21,242	26,141	31,144
Operating variance	-10,560	150	1,530	1,530	1,530
EV Operating Profit (EVOP)	31,920	54,880	51,279	60,095	69,712
Non-operating variance	-4,370	-14,490	-1,500	-1,500	-1,500
EV Profit	27,550	40,390	49,779	58,595	68,212
Net capital injection	-2,360	-300	-816	-923	-963
Closing EV	316,250	356,340	405,303	462,974	530,223

Source: Company, KRChoksey Research

Key Financials (INR Mn)	FY22	FY23	FY24E	FY25E	FY25E
Total premium	374,580	399,328	419,723	461,418	510,115
Net premium earned	363,213	385,595	405,033	447,575	494,811
NBP-APE	77,330	86,400	78,673	90,140	103,814
Combined ratio (%)	14.3%	16.1%	19.5%	19.0%	19.0%
Surplus/(Deficit)	21,904	23,021	17,285	20,127	21,025
VNB margin (%)	28.0%	32.0%	27.0%	29.0%	30.0%
PAT	7,541	8,107	8,159	9,234	9,631
EPS (Rs.)	5.2	5.6	5.7	6.4	6.7
EVPS (Rs.)	220.0	247.7	281.4	321.5	368.2
RoEV (%)	11.0%	17.4%	14.4%	14.8%	15.1%
RoE (%)	8.2%	8.4%	7.8%	8.2%	8.0%

Source: Company, KRChoksey Research

ICICI Prudential Life Insurance Ltd.

ICICI Prudential Life Insurance Ltd.			
Date	CMP (INR)	TP (INR)	Recommendation
18-Jan-24	486	545	ACCUMULATE
19-Oct-23	521	625	BUY
20-Jul-23	548	665	BUY
21-Apr-23	444	570	BUY
19-Jan-23	487	635	BUY
18-Oct-22	513	680	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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