

ICICI Prudential Life Insurance Co Ltd (IPRU)

BUY

Target: Rs 893

Top-line growth intact; however margin remains a miss

ICICI Prudential premium income growth was reported higher than our estimates as the company's retail segment remained healthy during the quarter. Along with premium income, its income from investments too remained strong on YoY basis, however, margin remained weak sequentially. Commission costs remained elevated during the quarter as the company is still in the process to structure its commission expense as per the new norms. However, the company's margin remained a miss broadly due to higher ULIP sales and lower demand for non-par products. Going forward, the company shall look for absolute VNB growth if the opportunity arises.

Demand for linked products continues to see increase

ICICI Pru continues to see higher demand for linked products. During Q2FY25, in APE Mix the sale of linked products increased by 29% QoQ/40% YoY. Consequentially, the portion of ULIP products in the APE mix increased by 46bps QoQ/692bps YoY to 52% of the total APE. Along with higher demand for linked products, the non-par products saw a declining trend on a YoY basis, although it increased sequentially. Non-linked products increased by 44% QoQ, however, declined by 10% YoY. Annuity products continued to gain interest as its sale in the whole APE mix increased by 2% QoQ/73% YoY.

Dip in margin expected to continue in next quarter

IPRU saw a decline in margin mainly due to higher commission costs, increase in sale of sale of ULIP products and lower sale of non-linked products. ULIP products continues to increase as the policyholder continue to benefit from the equity market. Also, during the quarter decline in G-Sec also impacted the non-linked and annuity product margin as the insurer has to align lower rates in the products.

Capacity additions and distribution mix

The distribution network remains diversified for IPRU as during the quarter the share of bancassurance/agency/direct channel in the APE increased by 27%/44%/33% YoY. The company added 29,000 agents in H1FY25 and advisers increased by 60%. Hence, addition of capacity and diversifying distribution remains the company key strategy.

Designing product for the new norms

The company is seeing traction in its product GPP Flexi with benefit enhancer and claw back commissions. It believes that the new norms are customer-centric shall benefit the industry in the long run. The company will offer longer tenor products, higher sum assured products, multiples and increased rider attachments.

Valuation and outlook

ICICI Prudential saw healthy growth in its premium income, however, margin remained a miss. The growth in top-line was mainly fueled by the linked and annuity products while non-linked products remained flat on YoY basis. The management shall focus to increase absolute VNB and thus margin would remain subdued in the next quarter.

The company is adapting to the new regulatory norms is seeing traction in its newly adapted products. IPRU is currently trading at a 2.2/2.0/1.7x P/EV of its FY25/26/27E embedded value. We maintain Buy on ICICI Pru with a target price of Rs 893, valuing the company 2.3x of its FY26E embedded value.

YE March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Gross premiums	3,99,328	4,32,357	4,91,864	5,54,178	6,28,633
Total income	5,04,781	9,03,073	9,34,120	9,46,950	10,03,999
Total benefits	4,06,056	8,06,450	8,29,800	8,32,828	8,78,713
Surplus/(deficit) after tax	23,021	10,892	24,495	25,857	25,954
APE	86,400	90,460	96,350	1,12,603	1,30,628
VNB	27,650	22,270	25,668	30,583	35,523
New business premium (NBP)	1,69,220	1,80,810	2,12,458	2,38,469	2,68,594
Embedded value (EV)	3,56,390	4,19,890	4,77,798	5,48,190	6,29,507
EV per share (Rs)	247.0	291.0	331.1	379.9	436.3
P/EV (x)	3.0	2.5	2.2	1.9	1.7

Source: Company, ACMIIL Research

Key Data

Bloomberg code:	IPRU:IN
Target price (Rs)	893
CMP (Rs)	750
Upside/ (Downside)	19.0
Rating:	Buy
Shares outstanding (mn):	1,444
Mcap (Rs bn) :	1,083
52-week H/L (Rs):	797/463

Price Performance (%)

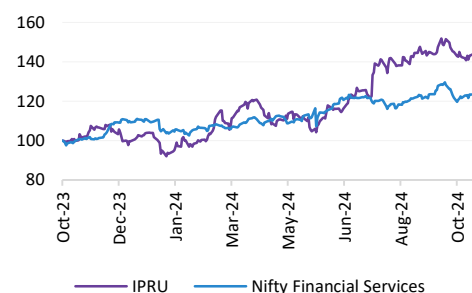
1 month	(7.6)
3 months	15.3
12 months	40.3

Shareholding Pattern (%)

	Mar'24	Jun'24	Sep'24
Promoter	73.2	73.2	73.1
FII's	13.4	13.2	13.0
DII's	8.5	8.8	9.3
Public/other	4.9	4.8	4.7
Pledge	-	-	-

Source: BSE

ICICI Prudential vs Nifty Financial Services



Source: NSE

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ICICI Prudential Life Insurance Co Ltd (IPRU)

Policyholders account - Consolidated

Premium growth came in slightly higher than our estimates by 5%

Y/E March (Rs Mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	ACMIIL Est.	Var (%)
First year premium	20,587	15,290	34.6	15,221	35.3	21,463	-4.1
Renewal premium	60,858	58,917	3.3	43,350	40.4	62,643	-2.8
Single premium	30,307	30,052	0.9	24,267	24.9	29,533	2.6
Total premium	1,11,752	1,04,259	7.2	82,837	34.9	1,13,638	-1.7
Net premium income	1,07,542	1,00,224	7.3	78,747	36.6	1,02,543	4.9
Income from investments	1,42,770	69,389	105.8	1,73,533	-17.7	1,13,574	25.7
Other income	562	518	8.7	544	3.4		
Transfer of funds from shareholders ac	-799	5,137	-115.6	1,761	-145.4		
Total	2,50,075	1,75,269	42.7	2,54,584	-1.8		
Commission							
First year premium	3,883	3,679	5.5	2,660	45.9		
Renewal premium	1,276	1,114	14.5	868	47.0		
Single premium	5,140	1,634	214.5	4,555	12.9		
Total commission	10,298	6,427	60.2	8,083	27.4		
Net commission	12,349	7,709	60.2	9,456	30.6		
Expenses of management	22,899	19,231	19.1	19,853	15.3		
Other expenses	1,642	1,692	-3.0	1,651	-0.6		
Provision for taxes	173	287	-39.8	122	42.1		
Benefits paid	1,20,218	94,643	27.0	95,226	26.2		
Change in actuarial liability	1,04,217	56,408	84.8	1,34,891	-22.7		
Total	2,49,148	1,72,260	44.6	2,51,742	-1.0		
Surplus/(deficit)	927	3,008	-69.2	2,842	-67.4		

Sources: Company, ACMIIL Research

Shareholders account - Consolidated

PAT growth remained moderate owing to higher commission expense

Y/E March (Rs Mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	ACMIIL Est.	Var (%)
Transfer from policyholders account	1,018	3,647	-72.1	2,891	-64.8		
Investment income	1,271	4,270	-70.2	1,673	-24.0		
Other income	71	43	66.6	63	13.2		
Expenses other than insurance business	308	345	-10.8	286	7.6		
Transfer of funds to policyholders ac	-799	5,137	-115.6	1,761	-145.4		
Profit/(loss) before tax	2,852	2,477	15.2	2,589	10.2		
Provision for taxes	343	38	803.7	345	-0.8		
PAT	2,510	2,439	2.9	2,243	11.9	2,907	-13.7

Sources: Company, ACMIIL Research

ICICI Prudential Life Insurance Co Ltd (IPRU)

Business parameters

Linked products reported a growth of 28.6% QoQ/40% YoY in the APE mix

Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	ACMIIL Est.	Var (%)
APE Mix (Rs mn)							
Linked	12,980	9,270	40.0	10,090	28.6		
Non-linked	4,780	5,320	-10.2	3,310	44.4		
Annuity	2,180	1,260	73.0	2,140	1.9		
Group funds	880	880	-	540	63.0		
Savings	20,820	16,730	24.4	16,080	29.5		
Protection	4,210	3,900	7.9	3,550	18.6		
Total APE	25,030	20,630	21.3	19,630	27.5	21,003	19.2
APE Mix (%)							
Unit Linked	51.9	44.9	692bps	51.4	46bps		
Non-linked	19.1	25.8	-669bps	16.9	224bps		
Annuity	8.7	6.1	260bps	10.9	-219bps		
Group funds	3.5	4.3	-75bps	2.8	76bps		
Savings	83.2	81.1	208bps	81.9	126bps		
Protection	16.8	18.9	-208bps	18.1	-126bps		
Distribution Mix (Rs mn)							
Bancassurance	7,360	5,790	27.1	5,650	30.3		
Agency	7,800	5,420	43.9	5,770	35.2		
Direct	3,960	2,970	33.3	2,980	32.9		
Partnership distribution	2,480	2,940	-15.6	2,260	9.7		
Group	3,430	3,510	-2.3	2,970	15.5		
Total APE	25,030	20,630	21.3	19,630	27.5		
Distribution Mix (%)							
Bancassurance	29.4	28.1	134bps	28.8	62bps		
Agency	31.2	26.3	489bps	29.4	177bps		
Direct	15.8	14.4	142bps	15.2	64bps		
Partnership distribution	9.9	14.3	-434bps	11.5	-160bps		
Group	13.7	17.0	-331bps	15.1	-143bps		
Persistency ratio (%)							
13th month	86.6	85.6	100bps	85.7	90bps		
61st month	64.1	61.9	220bps	65.8	-170bps		
Solvency Ratio (%)							
Annual premium equivalent	25,040	20,620	21.4	19,630	27.6		
New business premium	49,290	43,590	13.1	37,690	30.8		
Value of new business	5,860	5,770	1.6	4,720	24.2	6,042	-3.0
VNB margin (%)	23.7	28.8	-510bps	24.0	-34bps		

Sources: Company, ACMIIL Research

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Con-Call Key Take Away

Adhering to the new norms – ICICI Pru's available to sell products have been redesigned in line with the new product regulation, keeping the interest of customers, shareholders and distributors in mind. Impact on customer benefit has been minimized, except for where necessitated due to the yield curve changes. On the distributor front, it has been working on the various propositions such as clawback of commission on non-persistent policies, progressive commission structures and reduction of commission. Discussions with partners are still ongoing, and the company believes that it will evolve.

The impact on the company's margin can also be mitigated through a combination of measures by offering longer tenor products, higher sum assured products, multiples and increasing rider attachments. The company believes that such customer-centric changes will boost the industry's long-term growth.

Traction in the credit line segment - Credit line segment has done well as IPRU continues to add partners and introduce propositions, aligned to the various lines of businesses of our partners. In the group term business, there has been a continued and significant trend of price reduction in this area, largely attributable to increased competition.

Capacity addition continues – The company continues to build capacity and have added more than 29,000 agents during H1 spread across geographies. It has tie ups with 45 banks with access to ~ 22,000 bank branches and more than 1,200 non-bank partnerships. During H1FY25, the insurance company added ~20 partners.

Decline in margin - The movement in margin is primarily due to two factors. One is the shift in the underlying product mix towards ULIPs on account of the continued market buoyancy and the decline in the nonparticipating business. While on QoQ basis, the overall product mix may vary based on the customer preference, a wide range of distribution partners spread across geographies with access to various customer segments will help to sustain a balanced product mix. The company is focused on increased its absolute VNB based on the market opportunity. The company shall serve its customer based on the market demand.

Steady inflow from ICICI Bank – The premium coming from ICICI Bank as a banking partner remains stable as ~Rs 1,000-1,100mn premium is derived from ICICI Bank on a monthly basis. Their focus has been on protection and annuity and on protection side of the business.

Modification in the annuity products – In order to increase the sale of annuity products, the company launched a benefit enhancer as a value proposition with the belief that customers who had apprehensions about buying a life insurance product on annuity platform about losing the principle in case of non-payment of renewals.

Strategy to increase ticket size of ULIP products – Since ULIP product has seen traction, the company can maximise profitability by selling a longer tenure products, attaching riders and increasing commission in multiple or to start with sell a high sum assured products. Lastly, ensuring that the products are getting delivered in a composite manner.

Change in commission structure – The insurance company expects commission to remain elevated in the next quarter as well as it continues conversation with its partners. The conversations with the partners revolved around deferment of commissions, progressive commission structures and clawback of commissions.

On-boarding advisers – IPRU's advisers has increased by 60% in H1FY25. The company is looking to onboard right profile to give access to the customers for most appropriate products.

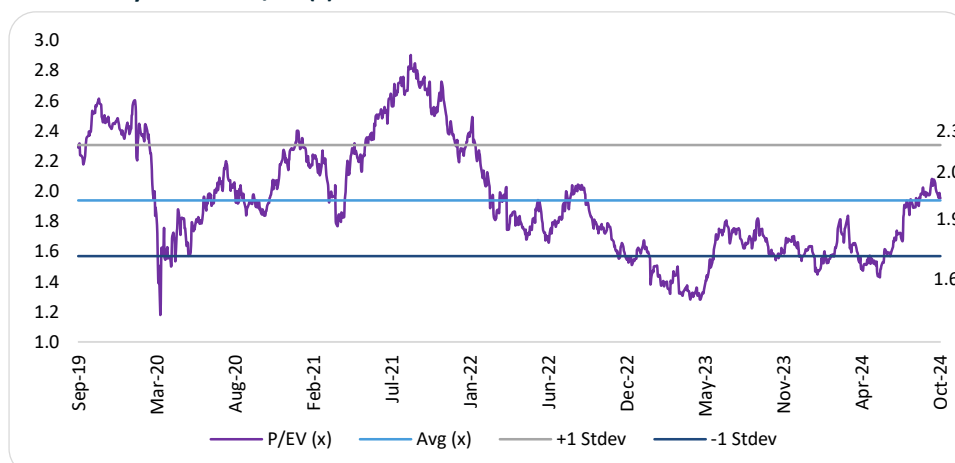
Increase in solvency ratio – The company is looking to raise Rs 14,000mn which shall improve the solvency ratio by ~20%

ICICI Bank and Standard Chartered collectively contribute 25% of the retail business.

The company continues to build capacity and have added more than 29,000 agents during H1 spread across geographies.

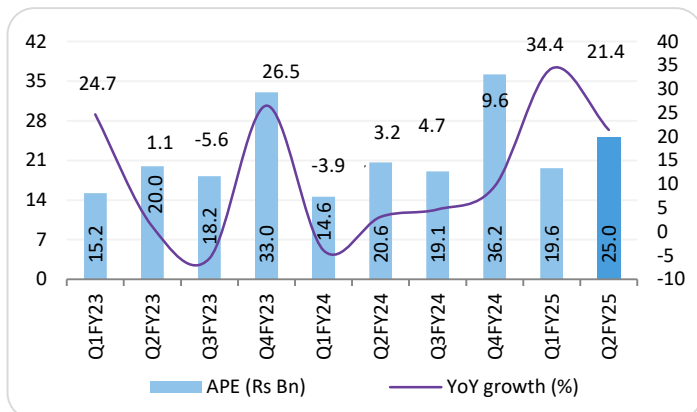
Valuation Chart

Exhibit 1: 1 yr forward P/EV (x)

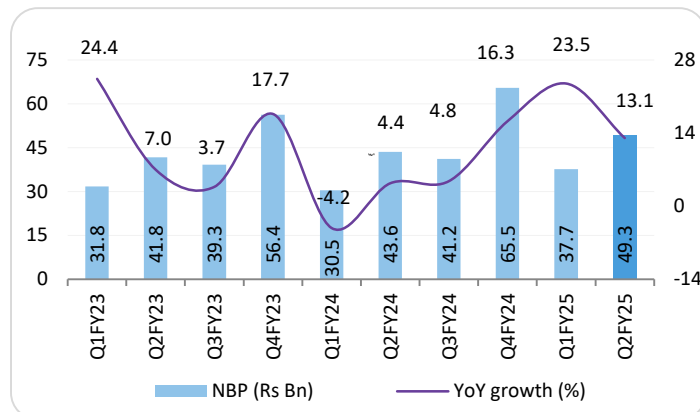


Sources: ACMIIL Research

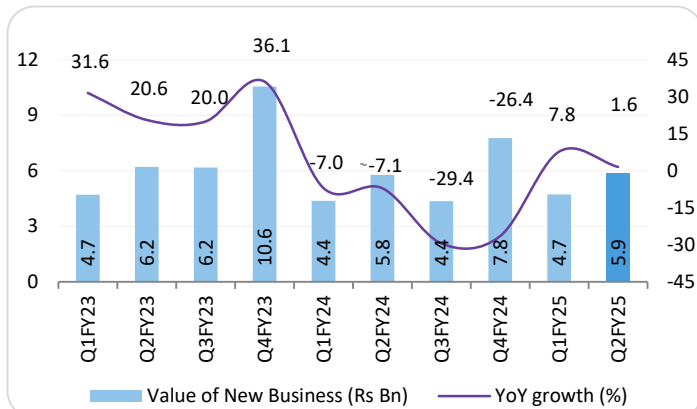
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Exhibit 2: APE growth of IPRU remained healthy


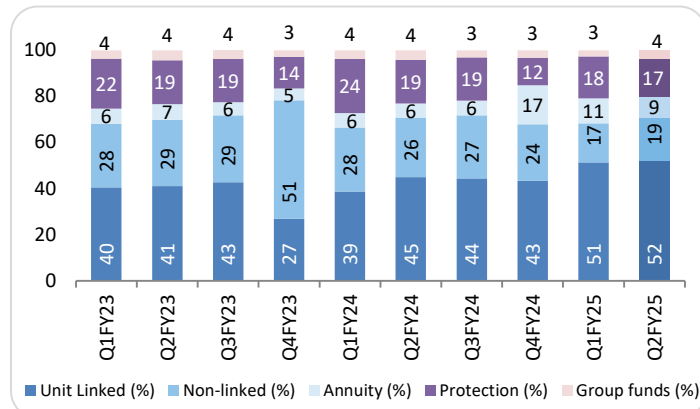
Source: Company, ACMIIL Research

Exhibit 3: Increased in NBP led by first year premium


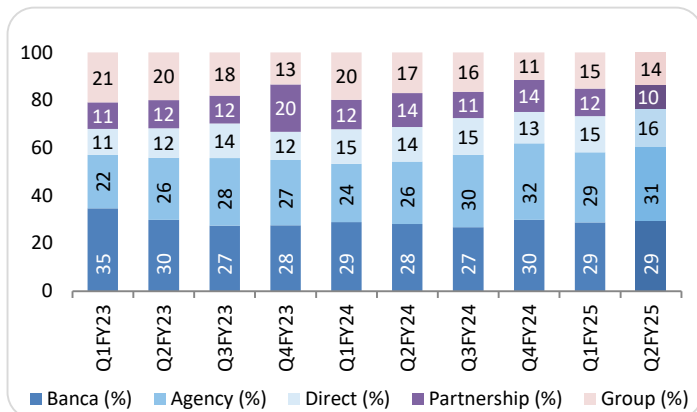
Source: Company, ACMIIL Research

Exhibit 4: Moderation in VNB growth


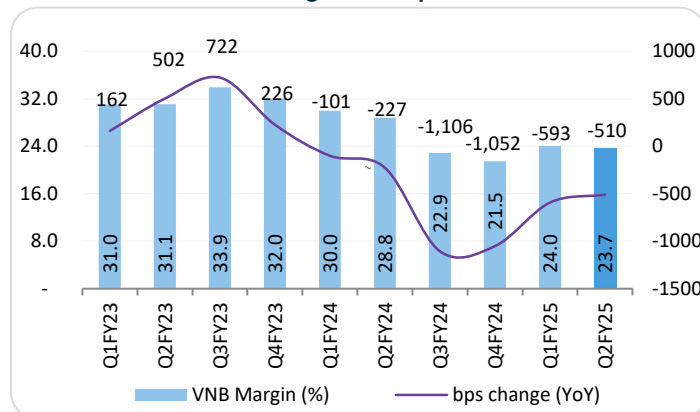
Source: Company, ACMIIL Research

Exhibit 5: Linked products continue to see traction


Source: Company, ACMIIL Research

Exhibit 6: Agency network remains strong for IPRU


Source: Company, ACMIIL Research

Exhibit 7: Subdued VNB margin due to product mix


Source: Company, ACMIIL Research

ICICI Prudential Life Insurance Co Ltd (IPRU)

Financials (Consolidated)

Technical Account Statement

Y/E March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Gross premiums	3,99,328	4,32,357	4,91,864	5,54,178	6,28,633
Net premiums	3,85,595	4,17,597	4,75,108	5,35,299	6,12,967
Investment income	1,01,162	4,67,550	4,45,230	4,03,538	3,83,983
Contribution from the shareholders account	18,024	17,926	13,781	8,114	7,049
Total income	5,04,781	9,03,073	9,34,120	9,46,950	10,03,999
Commissions	18,639	37,220	38,010	42,618	47,785
Operating expenses	53,068	47,433	50,404	54,713	60,647
Benefits paid	3,07,887	4,00,060	4,74,200	4,94,413	5,18,822
Change in valuation of life reserves	98,170	4,06,391	3,55,600	3,38,416	3,59,891
Total benefits	4,06,056	8,06,450	8,29,800	8,32,828	8,78,713
Tax	1,842	1,078	859	907	910
Surplus/(deficit) after tax	23,021	10,892	24,495	25,857	25,954

Source: Company, ACMIIL Research

Shareholders account

Y/E March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Transfer from policyholder's a/c	20,162	14,719	15,088	15,042	14,921
Investment income	8,800	13,721	7,054	7,667	8,366
Other income	139	283	373	441	534
Total income	29,100	28,723	29,319	29,445	29,408
Operating expenses	1,152	1,222	1,333	1,364	1,410
Contribution to the policyholders a/c	18,024	17,926	14,851	14,805	14,684
Profit before tax	9,003	9,216	9,858	13,239	13,863
Tax	868	702	705	587	563
Profit after tax	8,135	8,514	9,153	12,652	13,299

Source: Company, ACMIIL Research

Key Ratios

Y/E March (%)	FY23	FY24	FY25E	FY26E	FY27E
VNB	27,650	22,270	25,668	30,583	35,523
VNB growth (%)	32.0	24.6	26.6	27.2	27.2
VNB margin (%)	32.0	24.6	26.6	27.2	27.2
APE	86,400	90,460	96,350	1,12,603	1,30,628
APE growth (%)	11.7	4.7	6.5	16.9	16.0
NBP	1,69,220	1,80,810	2,12,458	2,38,469	2,68,594
NBP growth (%)	12.5	6.8	17.5	12.2	12.6

Sources: Company, ACMIIL Research

Balance Sheet

Y/E March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	14,388	14,406	14,406	14,406	14,406
Reserves and surplus	83,707	92,183	1,00,421	1,11,808	1,23,777
Fair value change account	2,801	3,453	3,761	4,188	4,636
Shareholder's equity	1,00,895	1,10,046	1,18,589	1,30,402	1,42,820
Borrowings	12,000	12,000	12,000	12,000	12,000
Fair value change account	28,327	50,273	50,514	51,791	53,852
Policy liabilities	23,43,654	27,50,045	28,94,376	31,35,930	34,64,233
Funds for future appropriations	16,693	12,866	13,527	14,638	16,149
Total liabilities	24,00,674	28,25,183	29,70,417	32,14,359	35,46,234
Total liabilities and shareholders equity	25,01,569	29,35,229	30,89,006	33,44,761	36,89,054
Shareholders investments	98,471	1,05,673	1,14,375	1,20,236	1,27,598
Policyholders investments	9,43,110	11,43,182	12,77,352	14,76,919	17,40,157
Unit linked investments	14,40,581	16,48,424	16,56,323	16,98,198	17,65,771
Loans	13,141	17,606	19,927	22,744	26,083
Fixed assets	5,963	7,194	7,076	6,947	6,795
Net current assets/(liabilities)	304	13,150	13,957	19,717	22,649
Total assets	25,01,569	29,35,229	30,89,010	33,44,760	36,89,054
Total liabilities and shareholders equity	25,01,569	29,35,229	30,89,006	33,44,761	36,89,054

Source: Company, ACMIIL Research

EV movement

Y/E March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Value of New Business (VNB)	27,650	22,270	25,668	30,583	35,523
Unwind	27,080	30,710	32,332	40,135	46,048
Operating assumption changes	-1,610	700	825	938	1,077
EVOP	54,880	50,170	58,824	71,657	82,647
Economic assumption change	-14,490	16,910	-	-	-
Net capital injection	-300	-60	-915	-1,265	-1,330
Embedded value (EV)	3,56,390	4,19,890	4,77,798	5,48,190	6,29,507
Return on embedded value (ROEV) (%)	17.4	14.1	14.0	15.0	15.1

Source: Company, ACMIIL Research

Valuation

YE March (x)	FY23	FY24	FY25E	FY26E	FY27E
P/EV	3.0	2.5	2.2	1.9	1.7
P/VNB	38.3	47.6	41.3	34.7	29.8
P/B	10.5	9.6	8.9	8.1	7.4
P/E	130.3	124.5	115.8	83.8	79.7

Sources: Company, ACMIIL Research

ICICI Prudential Life Insurance Co Ltd (IPRU)

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	$\geq 15\%$
SELL	$< -10\%$
HOLD	$> -10\%$ to 15%

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