

Flat premium income growth, margins continue to contract

Q3FY24 Result Update | Sector: Insurance | January 18, 2024

BUY

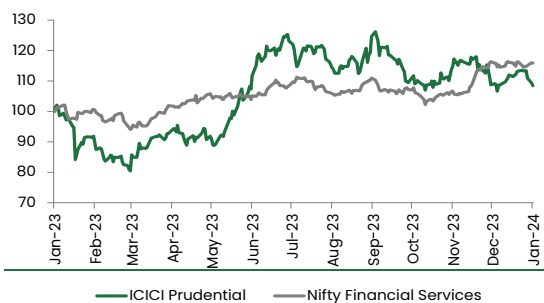
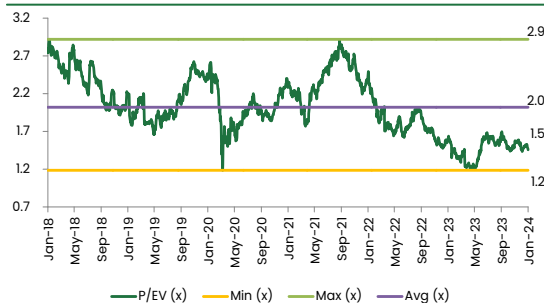
CMP (Rs)	485
Target Price (Rs)	577
Potential Upside	19%
Sensex	71,129
Nifty	21,447

Key Stock data

BSE Code	540133
NSE Code	ICICIPRULI
Bloomberg	IPRU:IN
Shares o/s, Cr (FV 10)	144.0
Market Cap (Rs Cr)	69,840
3M Avg Volume	1,853,650
52 week H/L	616/381

Shareholding Pattern

(%)	Jun-23	Sep-23	Dec-23
Promoter	73.3	73.3	73.3
FII	15.4	15.5	14.7
DII	6.3	6.4	6.9
Public	4.9	4.8	5.1

1 year relative price performance

1 year forward P/EV (x)

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Weak premium income growth: ICICI Prudential Q3FY24 net premium income increased by 4.9% YoY to Rs 9,929 Cr which was mainly led by first year premium growth of 11.3% YoY. Income from investment was the driver for growth with 111.3% YoY to Rs 16,315 Cr. APE/NBP both increased by 4.8% YoY, however, declined by 7.5%/5.6% QoQ. Commission expenses and expenses of management (EOM) dragged down the profitability during the quarter; hence, PAT reported a growth of 2.4% YoY to Rs 227 Cr. The commission expense is due to the re-design in commission structure, pursuant to the IRDAI guidelines across all channels.

Unit linked and annuity plans see traction: Unit linked products continue to interest the customers as the product recorded growth of 8.7% YoY in the APE. The increase in products mix seemed highly skewed towards par products and unit linked as compared to the non-par products. Along with unit linked products, annuity products also saw a growth of 17.3% YoY. On the overall APE mix, unit linked products and annuity products increased by 162bps/68bps YoY while other products saw a decline.

Fall in VNB Margins: As the product mix saw increase of unit products and annuity products, the effect of such shift had an effect on the VNB margin which declined by 1106bps YoY to 22.9%. The management said that it faced competitive pressure in the non-par and annuity segments which led to compression of margins.

Balanced distribution mix: The company saw an increase in sale of premiums in the agency channel which was due to capacity addition in the previous quarter. The agency channel contributed 30.3% in the overall APE mix with a growth of 194bps YoY. With regards to the bancassurance, the share of ICICI Bank in the bancassurance channel stood at ~13-14% of the overall APE mix while the contribution of other banks stood at 11% of the APE mix which has grown by 11% YoY. The bank has strategic partnership with banks which helps in diversification of channel mix and penetrate in rural markets.

Positive guidance going forward: The management expects more than 10% YoY growth in APE which will be driven by the combination of products, investment in channels, initiatives taken to products and capacity addition. The company has invested in the proprietary channel and expects that VNB growth will be driven by the growth in APE. The management remains focus on providing products to customers which suits their needs and in line with this, they launched credit life product which saw an APE growth of 20% YoY and will continue to drive growth going forward.

Valuation & Outlook: We remain positive on ICICI Prudential which is driven by its diversified distribution channel, growth in retail premium and its product launches. The company expects to see double digit growth in APE in Q4FY24 along with stabilizing margins going forward. However, in the near term it is facing challenges due to low premium growth, decline in margins and increasing commission costs. Factoring this, we revise our target price downwards to **Rs 577** while maintaining a **Buy** rating valuing the company at 1.5x of its FY26E embedded value per share.

Financial Summary - consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Gross premiums	39,933	43,216	47,301	50,934
Total Income	50,478	51,903	57,130	62,325
Total Benefits	40,606	41,708	45,708	49,802
Surplus/(Deficit) after tax	1,102	2,754	3,298	3,560
APE	8,640	8,216	9,444	10,865
VNB	2,765	3,088	3,744	4,461
New business premium (NBP)	16,922	19,904	20,266	22,080
Embedded value (EV)	35,639	42,996	51,277	61,531
EV per share (Rs)	247.0	298.0	355.4	426.4
P/EV (x)	2.1	1.7	1.4	1.2

Source : RBL Research

Con-call highlights: 1) The company said that with regards to changes in the surrender value, it is still under draft stage and there is ongoing discussion between regulator and the company. 2) The company has not lost any opportunity in the more than Rs 5 Lakhs policy account, however, it has seen slight decline in the less than Rs 5 Lakhs policies. 3) The company has seen higher growth in costs as compared to the growth in premium income. 4) The increase in commission is higher where the company in case of multi insurers and company. 5) The company continues to invest in building capacity by recruiting more agents. 6) The AuM is largely retail and very small portion belongs to the group AuM. 7) The company sees multiyear opportunity in the retail protection product given the under penetration of insurance products. 8) The company invests in data science over years and consumer centric engine to power its premium sales.

Policyholders account - consolidated

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y %	Q2FY24	Q-o-Q %
First year premium	1,533	1,378	11.3	1,529	0.3
Renewal premium	6,080	5,753	5.7	5,892	3.2
Single premium	2,672	2,649	0.9	3,005	-11.1
Total premium	10,285	9,780	5.2	10,426	-1.4
Net premium income	9,929	9,465	4.9	10,022	-0.9
Income from investments	16,315	7,722	111.3	6,939	135.1
Other income	53	37	45.9	52	3.1
Transfer of funds from shareholders ac	350	312	12.2	514	-31.8
Total	26,648	17,535	52.0	17,527	52.0
Commission					
First year premium	336	220	52.8	368	-8.6
Renewal premium	112	109	3.3	111	0.7
Single premium	373	41	807.1	163	128.4
Total commission	822	370	122.2	643	27.8
Net commission	1,002	391	155.9	771	29.9
Expenses of management	1,880	1,436	31.0	1,923	-2.2
Other expenses	168	191	-11.9	169	-0.5
Provision for taxes	34	51	-32.7	29	18.5
Benefits paid	10,080	8,709	15.7	9,464	6.5
Change in actuarial liability	14,104	6,624	112.9	5,641	150.0
Total	26,266	17,010	54.4	17,226	52.5
Surplus/(deficit)	382	525	-27.2	301	26.9

Net premium income increased by 4.9% YoY in Q3FY24

Commission expenses increased by 155.9% YoY due to increase in single commission

Policyholder's surplus/(deficit) declined by 27.2% YoY in Q3FY24

Source : RBL Research

Shareholders account - consolidated

Particulars, Rs cr	Q3FY24	Q3FY23	Y-o-Y %	Q2FY24	Q-o-Q %
Transfer from policyholders account	410	412	-0.5	365	12.4
Investment income	186	240	-22.6	427	-56.5
Other income	16	3	371.2	4	282.0
Expenses other than insurance business	30	29	3.3	34	-13.0
Transfer of funds to policyholders ac	350	312	12.2	514	-31.8
Profit/(loss) before tax	231	226	2.3	248	-6.6
Provision for taxes	4	5	-2.9	4	15.3
PAT	227	222	2.4	244	-7.0

PAT increased marginally by 2.4% YoY as expenses increased

Source : RBL Research

Business parameters - consolidated

Particulars	Q3FY24	Q3FY23	Y-o-Y %	Q2FY24	Q-o-Q %
APE Mix (Rs Cr)					
Linked	846	778	8.7	927	-8.7
Non-linked	522	529	-1.3	532	-1.9
Annuity	122	104	17.3	126	-3.2
Group funds	60	71	-15.5	88	-31.8
Savings	1,550	1,481	4.7	1,673	-7.4
Protection	358	340	5.3	390	-8.2
Total APE	1,908	1,821	4.8	2,063	-7.5
APE Mix (%)					
Unit Linked	44.3	42.7	162bps	44.9	-59bps
Non-linked	27.4	29.0	-169bps	25.8	157bps
Annuity	6.4	5.7	68bps	6.1	29bps
Group funds	3.1	3.9	-75bps	4.3	-112bps
Savings	81.2	81.3	-9bps	81.1	14bps
Protection	18.8	18.7	9bps	18.9	-14bps
Distribution Mix (Rs Cr)					
Bancassurance	512	500	2.4	579	-11.6
Agency	578	516	12.0	542	6.6
Direct	295	262	12.6	297	-0.7
Partnership distribution	210	214	-1.9	294	-28.6
Group	313	328	-4.6	351	-10.8
Total APE	1,908	1,820	4.8	2,063	-7.5
Distribution Mix (%)					
Bancassurance	26.8	27.5	-64bps	28.1	-123bps
Agency	30.3	28.4	194bps	26.3	402bps
Direct	15.5	14.4	107bps	14.4	106bps
Partnership distribution	11.0	11.8	-75bps	14.3	-324bps
Group	16.4	18.0	-162bps	17.0	-61bps
Persistency ratio (%)					
13th month	85.5	83.3	220bps	85.6	-10bps
61st month	63.1	63.6	-50bps	61.9	120bps
Solvency Ratio (%)					
Annual premium equivalent	1,907	1,821	4.7	2,062	-7.5
New business premium	4,117	3,928	4.8	4,359	-5.6
Value of new business	436	618	-29.4	577	-24.4
VNB margin (%)	22.9	33.9	-1106bps	28.8	-594bps

Annualized premium equivalent increased by 4.8% YoY, however, it declined by 7.5% QoQ

Unit linked products in the overall APE mix stood 44.3%, up by 162bps YoY

Agency channel increased by 12% YoY in the APE mix

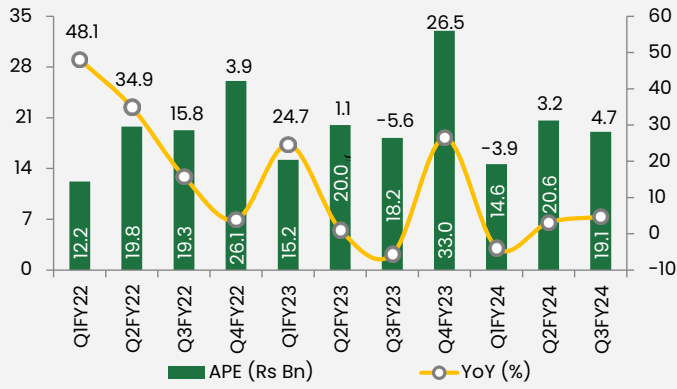
61st month persistency improved by 120bps QoQ to 63.1%

VNB margin declined by 1106bps YoY to 22.9%

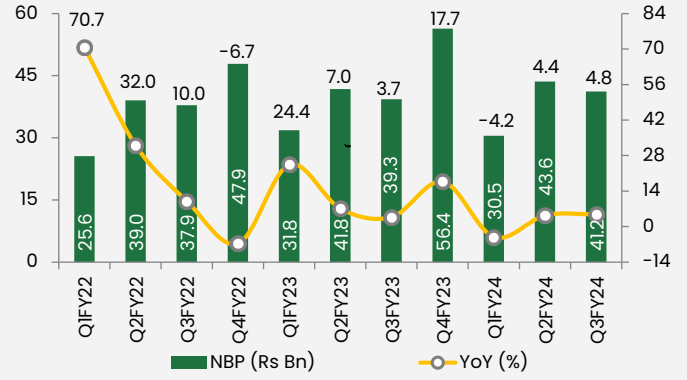
Source : RBL Research

Story in charts

APE increased by 4.7% YoY in Q3FY24

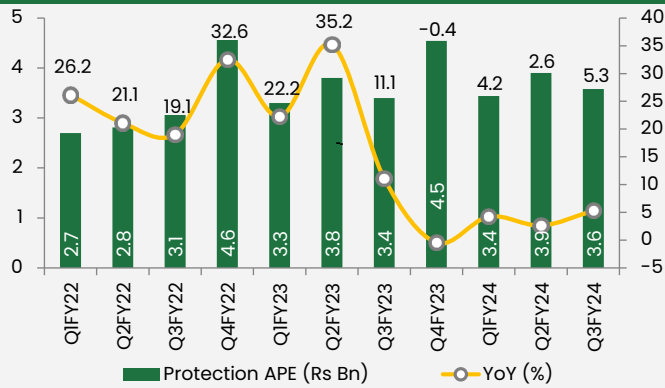


NBP grew by 4.8% YoY in Q3FY24

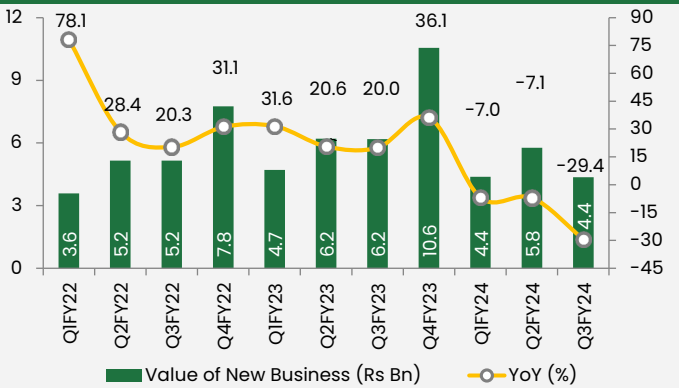


Source : RBL Research

Protection APE growth remained flat at 5.3% YoY

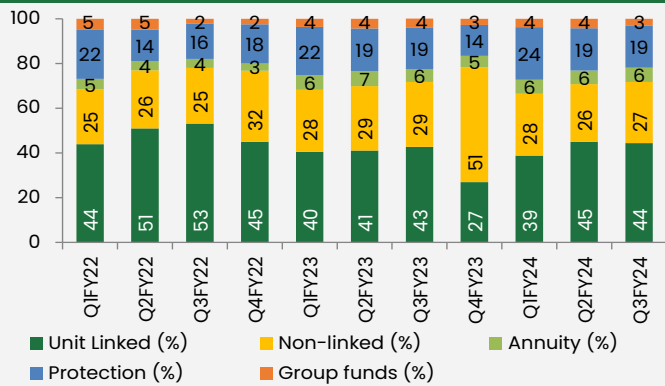


VNB declined by 29.4% YoY in Q3FY24 due to decline in margins

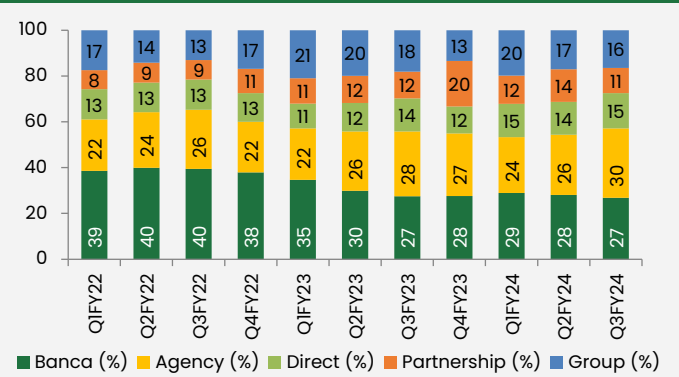


Source : RBL Research

Increasing unit linked products in the products mix

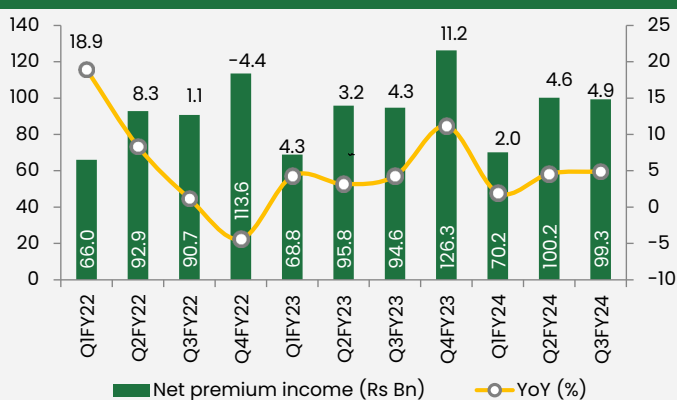


Agency channel increased due to capacity expansion

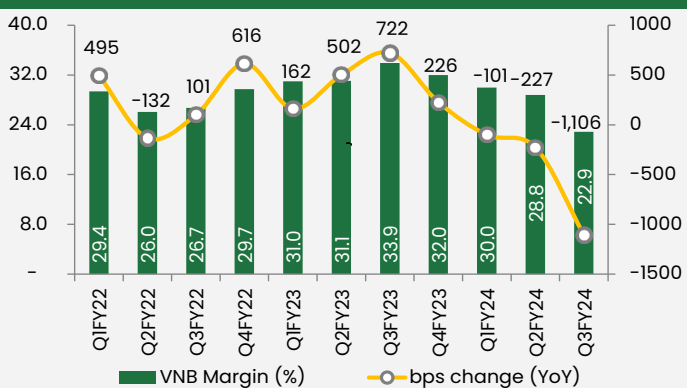


Source : RBL Research

Net premium income increased by 4.9% YoY in Q3FY24



VNB margin declined by 1106bps YoY in Q3FY24



Source : RBL Research

Technical account – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Gross premiums	39,933	43,216	47,301	50,934
Net premiums	38,560	41,730	45,674	49,183
Investment income	10,116	8,155	9,073	10,332
Contribution from the Shareholders account	1,802	2,019	2,382	2,811
Total Income	50,478	51,903	57,130	62,325
Commissions	1,864	1,913	2,096	2,354
Operating expenses	5,307	5,654	6,196	6,791
Benefits paid	30,789	32,591	37,536	43,515
Change in valuation of life reserves	9,817	9,117	8,172	6,287
Total Benefits	40,606	41,708	45,708	49,802
Surplus/(Deficit) before tax	2,486	2,628	3,129	3,378
Tax	-1,384	126	169	182
Surplus/(Deficit) after tax	1,102	2,754	3,298	3,560

Source : RBL Research

Balance Sheet – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Share capital	1,439	1,439	1,439	1,439
Reserves and surplus	8,371	9,528	10,686	11,832
Fair value change account	280	319	358	396
Shareholder's equity	10,090	11,285	12,482	13,667
Borrowings	1,200	1,200	1,200	1,200
Fair value change account	2,833	2,885	2,989	3,074
Policy liabilities	234,365	244,057	254,495	263,417
Funds for future appropriations	1,669	1,738	1,811	1,874
Total liabilities	240,067	249,880	260,495	269,565
Total liabilities and shareholders equity	250,157	261,165	272,977	283,232
Shareholders investments	9,847	11,314	11,789	12,143
Policyholders investments	94,311	100,913	106,766	112,104
Unit linked investments	144,058	146,737	152,014	156,344
Loans	1,314	1,551	1,721	1,911
Fixed assets	596	598	604	609
Net current assets/(liabilities)	30	53	83	121
Total assets	250,157	261,165	272,977	283,232

Source : RBL Research

Shareholders account – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Transfer from policyholder's a/c	2,016	2,097	2,212	2,256
Investment income	880	678	773	881
Other income	14	15	16	18
Total income	2,910	3,119	3,379	3,585
Operating expenses	115	105	118	117
Contribution to the policyholders a/c	1,802	1,718	1,975	2,019
Profit before tax	900	1,297	1,286	1,449
Tax	-87	55	66	75
Profit after tax	814	1,352	1,352	1,524

Source : RBL Research

Business Parameters – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
VNB	2,765	2,867	3,189	3,704
VNB growth (%)	32.0	3.7	11.3	16.2
VNB margin (%)	32.0	34.9	33.8	34.1
APE	8,640	8,216	9,444	10,865
APE growth (%)	11.7	-4.9	14.9	15.0
NBP	16,922	19,904	20,266	22,080
NBP growth (%)	12.5	17.6	1.8	8.9

Source : RBL Research

EV movement – consolidated

Particulars, Rs cr	FY23	FY24E	FY25E	FY26E
Opening EV	31,630	35,639	42,775	50,482
Value of New Business (VNB)	2,765	2,867	3,189	3,704
Unwind	2,708	2,887	1,283	1,767
Operating assumption changes	-161	-181	-218	-257
EVOP	5,488	5,572	4,255	5,214
Economic assumption change	-1,449	2,187	4,075	4,810
Net capital injection	-30	-623	-624	-617
Embedded value (EV)	35,639	42,775	50,482	59,889
Return on embedded value (ROEV)	17.4	15.6	9.9	10.3

Source : RBL Research

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S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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