

January 21, 2025

RESULT REPORT Q3 FY25 | Sector: Insurance (Life)

ICICI Prudential Life

VNB growth remains unsatisfactory as of now

Our view – Calculated quarterly VNB margin at 5-year low

VNB margin – Calculated VNB margin declined materially on sequential basis as product mix evolved negatively: The VNB margin for 3QFY25 was 21.2%, down -220bps QoQ and -166bps YoY. There has been a spike in group fund business and a large portion of the group fund business has a low margin profile similar to ULIP. Secondly, unlike peers, Non-Par Savings business has been weak, impacted by the current interest rate environment where fixed deposits are attractive to savers. The company wants to offer products that customers demand leading to ULIP traction. There has been very very limited impact on margin from surrender rule changes while the product level margin has largely remained the same. The VNB margin would remain at similar levels (presumably at product levels for 4Q). In the medium term, the company is targeting mid-teens VNB growth.

APE growth – APE growth was healthy with various businesses contributing: Overall APE in 3Q grew by 27.8% YoY to Rs 24.38bn. Linked business and Annuities grew 42% YoY and 50% YoY, respectively. Group fund APE jumped 348% YoY. Non-linked APE de-grew -24% YoY. Total protection was sluggish, growing 9% YoY whereas Retail Protection did well, growing 40% YoY. Group fund business is typically lumpy and the company is happy to pick up opportunities. Within Protection, Group term business continues to be impacted by heightened competition. Credit life was up 8% YoY and the share of credit life in overall protection was 38%. Credit life was impacted by issues in Microfinance, which comprises 45% of Credit life business. In the Annuities business, earlier, single premium annuities were not doing well and hence, regular pay annuity was introduced in January last year and it has done well. For the last 5 quarters, the company has delivered alpha on the market and wishes to continue to do so.

We maintain a relatively cautious 'ADD' with a revised price target of Rs 750: We value IPRU at 1.9x FY26 P/EV for an FY25/26/27E RoEV profile of 15.4/15.3/15.3%.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Other Highlights (See "Our View" above for elaboration and insight)

- **VNB growth:** VNB de-grew/grew -11.8%/18.6% QoQ/YoY, where the sequential de-growth was driven by decline in VNB margin
- **Expense control:** Expense ratio fell -434/-199bps QoQ/YoY as opex ratio fell -186/-90bps QoQ/YoY and comm. ratio fell -248/-109bps QoQ/YoY
- **Persistency:** 13th month, 37th month and 61st month persistency ratio improved/declined sequentially by 0bp, 80bps and -60bps respectively

Exhibit 1: Result table

Rs mn	Q3 FY25	Q3 FY24	% yoy	Q2 FY25	% qoq
NBP	65,701	42,054	56.2%	50,895	29.1%
Renewal premium	60,900	60,796	0.2%	60,858	0.1%
Income from investment	(79,059)	163,152	-148.5%	142,770	-155.4%
Surplus/(Deficit)	4,190	3,818	9.7%	927	351.8%
PAT	3,257	2,275	43.2%	2,517	29.4%
Expense ratio	16.9%	18.9%	-199bps	21.3%	-434bps
37th mo. Persistency*	74.5%	71.5%	300bps	73.7%	80bps
APE	24,380	19,070	27.8%	25,040	-2.6%
VNB	5,170	4,360	18.6%	5,860	-11.8%
VNB Margin	21.2%	22.9%	-166bps	23.4%	-220bps

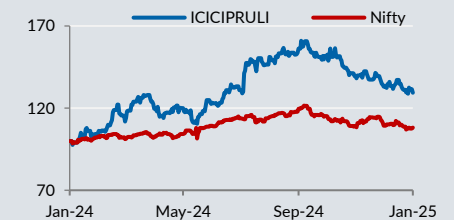
Source: Company, YES Sec-Research; *Regular / Limited Premium Payment under Individual category

Recommendation	: ADD
Current Price	: Rs 636
Target Price	: Rs 750
Potential Return	: +18%

Stock data (as on January 21, 2025)

Nifty	23,025
52 Week h/l (Rs)	797 / 475
Market cap (Rs/USD mn)	926822 / 10719
Outstanding Shares (mn)	1,445
6m Avg t/o (Rs mn):	984
Div yield (%):	0.1
Bloomberg code:	IPRU IN
NSE code:	ICICIPRULI

Stock performance



	1M	3M	1Y
Absolute return	-2.8%	-15.8%	29.4%

Shareholding pattern (As of Sep'24 end)

Promoter	73.1%
FII+DII	22.3%
Others	4.7%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	750	800

Financial Summary

Rs mn	FY25E	FY26E	FY27E
APE	115,293	132,586	152,474
% yoy	27.4%	15.0%	15.0%
VNB	26,216	30,149	34,671
VNB Margin	22.7%	22.7%	22.7%
Reported PAT	6,532	8,409	11,738
% yoy	-23.4%	28.7%	39.6%
EPS (Rs)	4.5	5.8	8.1
EV/Share (Rs)	337.4	387.3	444.7
RoEV	15.4%	15.3%	15.3%
P/EV (x)	1.9	1.6	1.4
P/VNB (x)	34.9	30.4	26.4

Δ in earnings estimates

Rs bn	FY25E	FY26E	FY27E
VNB (New)	26.2	30.1	34.7
VNB (Old)	26.0	30.3	34.8
% change	0.8%	-0.5%	-0.5%

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COMPREHENSIVE CON-CALL TAKEAWAYS

VNB margin

- **VNB and VNB margin levels**
 - The VNB in 9M FY25 was at 15.75bn, up by 8.5% YoY.
 - The VNB margin for 9MFY25 was 22.8% as against 26.7% for 9MFY24.
- **Group fund margin**
 - There has been a spike in group fund business and a large portion of the group fund business would have a margin profile similar to ULIP (low margin).
 - The group fund business is entirely Savings with no Protection component.
- **Non-linked savings mix**
 - The ratio of Par to Non-Par is 60:40.
 - It varies between 60:40 to 66:33.
- **ULIP business**
 - The company wants to offer products that customers demand and, currently, customers are demanding ULIP product.
- **Cost structure**
 - The company wishes to build cost structures that support specific product lines.
 - While this is a work in progress, there has been sequential downward movement in opex.
- **Surrender rule changes**
 - Surrender behaviour change is not conspicuous.
 - There has been very very limited impact on margin from surrender rule changes.
 - **Distributor commission restructuring**
 - The company has adopted deferment, clawback and reduction of commission.
 - Different distributors have agreed to different models.
 - Revisions have been completed with 95% of distributors and for the remaining, it would complete in a few weeks.
- **Product level margin**
 - The product level margin has largely remained the same.
 - For margin enhancement, the company is focused on rider attachment and elongation of term and these measures have started to bear fruit.
 - **Non-Par margin**
 - The company has repriced Non-Par plans in October in line with yield changes.
 - The last time this was done was in April and no changes were effected during 2Q.
 - However, share of Non-Par business is small.
 - The pricing changes were carried out for all products linked to g-sec yield i.e. Non-Par Savings and Annuities.
 - **New product launches**
 - The new products launches are margin neutral.
- **VNB margin guidance**
 - The VNB margin would remain at similar levels (presumably at product levels for 4Q).
- **VNB growth guidance**
 - In the medium term, the company is targeting mid-teens VNB growth.

(Con call takeaways continue on the next page)

Product growth and mix

- **New Products**
 - The company launched a women health product 'ICICI Pru Wish' and an increased annuity variant of 'GPP Flexi'
 - In the protection segment, the company has launched a term plan 'iProtect Super'
- **Linked business**
 - Linked product APE was up 49.8% YoY in 9M and contributed 50.8% to APE.
- **Group fund business**
 - Group funds business APE grew 102.5% YoY in 9M and contributed 6.0% to APE.
 - There has been a spike in group fund business, this being a typically lumpy business and the company is happy to pick up opportunities.
 - Group fund business is offered to corporate clients as part of a composite package.
 - Group fund business aids VNB growth since it is executed with the existing cost structure.
- **Protection business**
 - Total Protection APE grew 6.9% YoY in 9M and contributed 16.9% to APE.
 - Within this, retail protection APE grew 24.2% YoY in 9M and contributed 6.2% to APE.
 - Retail protection grew by 40% YoY in 3QFY25 and contributed 6.0% to APE.
 - Group term business continues to be impacted by heightened competition.
 - **Credit life**
 - Credit life is up 8% YoY.
 - The share of credit life in overall protection is 38%.
 - Microfinance comprises 45% of credit life business.
 - Credit life has been hit due to issues in the microfinance sector.
 - The non-MFI business continues to do well and the company has added more partners and products in this segment.
 - **Retail protection**
 - The share of ROP in retail protection is 15-20% over 9M.
- **Non-linked savings**
 - Non-linked savings APE (Par + Non-Par) de-grew -17.4% YoY in 9M and contributed 17.5% to APE.
 - **Non-Par savings**
 - Non-Par business has been impacted by the current interest rate environment where the rates being offered by fixed deposits are attractive to savers.
- **Annuities**
 - Annuity business APE grew 81.7% YoY in 9M and contributed 8.9% to APE.
 - The share of Annuities has gone up from about 6% last year to about 9% this year.
 - This reflects healthy traction for products being sold to upcoming retirees above 50 years of age.
 - Earlier, single premium annuities were not doing well and hence, regular pay annuity was introduced in January last year and it has done well.

Embedded Value

- **Assumptions**
 - There have been no assumption changes.

Operating expenses

- There has been a 10% sequential decline in cost.
- Cost to TWRP for 9MFY25 amounted to 27.8% as against 25.3% in 9MFY24.

(Con call takeaways continue on the next page)

- The cost to TWRP for the Savings LOB amounted to 16.8% in 9MFY25 as against 16.3% in 9MFY24.

Channel growth and mix

- **Agency channel**
 - The agency channel has grown 41.3% YoY in 9M and contributed 30.2% to total APE and 36.2% to retail APE.
 - To improve agent productivity the company has launched a digital platform ICICI Pru Edge.
 - The company has more than 200,000 agents.
 - **Initiatives for Agency channel**
 - Agency channel has been a focus area.
 - In the last 9 months, there has been 50% plus growth in advisor licencing.
 - There has been digital enablement with the advisor stack and productivity enhancement on value advisors has gone up 37%.
 - The learning academy has been working well for the company.
 - **Open architecture for agents**
 - While this is not in the company's control, management regards it as a different business from selling mutual funds.
 - It is a high intensity business with a lot of skill building required.
 - Agents tend to build productivity with certain manufacturers and may not wish to align with other manufacturers.
- **Bancassurance**
 - The bancassurance APE has grown 26.3% YoY in 9M and contributed 27.7% to APE.
 - The total banca partners are at 46 which gives the company access to 22,500 branches.
 - **ICICI Bank channel**
 - The ICICI Bank channel remains stable and is doing well on Protection.
 - **Mis-selling**
 - The company has always focused on curbing mis-selling which is reflected in the improvement in persistency.
- **Partnership distribution**
 - The partnership distribution channel growth was 2% YoY in 9M and contributed 10.1% to APE.
 - The non-bank partners stood at 1,250.
- **Direct channel**
 - The direct channel grew 31.6% YoY in 9M and contributed 15.3% to total APE and 18.4% to retail APE.

Overall revenue growth

- For the last 5 quarters, the company has delivered alpha on the market and wishes to continue to do so.
- **APE growth**
 - Overall APE in 9M grew by 27.2% YoY to Rs 69.05bn.
 - Retail APE in 9M grew by 28.5% YoY to Rs 57.53 bn.
 - Group APE in 9M grew by 20.9% YoY to Rs 11.51bn.

Persistency

- The 13th month and 49th month persistency figures were 89.8% and 69.2%, respectively.

(Con call takeaways continue on the next page)

Solvency

- The Solvency Ratio stood at 211.8% as of 9MFY25 compared with 196.5% in 9MFY24.
- In 3Q the company has raised subordinated debt of Rs 14bn which has aided in solvency improvement.

AUM

- The total asset under management stood at Rs 3,104.14bn up by 8.3% YoY.

Claim Settlement

- The company's claim settlement ratio was at 99.3% for 9MFY25.
- The average turnaround time was 1.2 days for non-investigative individual claims.

Bima Sugam

- The company has approved the proposal to invest up Rs 100mn not exceeding 10% of the share capital in Bima Sugam.
- Bima Sugam aims to create a centralized marketplace for insurance products and services.

Exhibit 2: Quarterly Actuals Vs Estimates

Q3FY25 (Rs. mn)	Actuals	Estimates	Diff, %
New Business Premium	65,701	50,495	30.1
Total APE	24,380	26,306	(7.3)
VNB	5,170	6,324	(18.2)

Source: Company, YES Sec - Research

Exhibit 3: Other Business Parameters

	Q3 FY25	Q3 FY24	% yoy	Q2 FY25	% qoq
APE Mix (Rs mn)					
Savings	20,480	15,500	32.1%	20,820	-1.6%
Linked	12,000	8,470	41.7%	12,970	-7.5%
Non-Linked	3,960	5,220	-24.1%	4,780	-17.2%
Annuity	1,830	1,220	50.0%	2,190	-16.4%
Group funds	2,690	600	348.3%	880	205.7%
Protection	3,900	3,570	9.2%	4,220	-7.6%
Retail Protection	1,470	1,050	40.0%	1,670	-12.0%
Total APE	24,380	19,070	27.8%	25,040	-2.6%
APE Mix (% proportion)					
Savings	84.0%	81.3%	272bps	83.1%	86bps
Linked	49.2%	44.4%	481bps	51.8%	-258bps
Non-Linked	16.2%	27.4%	-1113bps	19.1%	-285bps
Annuity	7.5%	6.4%	111bps	8.7%	-124bps
Group funds	11.0%	3.1%	789bps	3.5%	752bps
Protection	16.0%	18.7%	-272bps	16.9%	-86bps
Retail Protection	6.0%	5.5%	52bps	6.7%	-64bps
Total APE	100.0%	100.0%		100.0%	
Distribution mix (Rs mn)					
Bancassurance	6,100	5,120	19.1%	7,360	-17.1%
Agency	7,280	5,770	26.2%	7,800	-6.7%
Direct	3,630	2,940	23.5%	3,960	-8.3%
Partnership distribution	2,250	2,110	6.6%	2,490	-9.6%
Group	5,110	3,130	63.3%	3,430	49.0%
Distribution mix (% proportion)					
Bancassurance	25.0%	26.8%	-183bps	29.4%	-437bps
Agency	29.9%	30.3%	-40bps	31.2%	-129bps
Direct	14.9%	15.4%	-53bps	15.8%	-93bps
Partnership distribution	9.2%	11.1%	-184bps	9.9%	-72bps
Group	21.0%	16.4%	455bps	13.7%	726bps
Persistence Ratios*					
13 th month	89.8%	87.6%	220bps	89.8%	0bps
61 st month	65.3%	65.8%	-50bps	65.9%	-60bps
Expense Metrics					
Commission ratio	9.0%	10.1%	-109bps	11.5%	-248bps
Opex ratio	7.9%	8.8%	-90bps	9.8%	-186bps
Solvency					
Solvency ratio	212%	197%	1530bps	189%	2320bps

Source: Company, YES Sec – Research; *N.B. Regular / Limited Premium Payment under Individual category

ANNUAL FINANCIALS

Exhibit 4: Policyholder account

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net premium	385,595	417,597	497,941	569,521	652,316
Income from investments	99,646	465,503	404,099	451,469	505,943
Other income	1,516	2,046	2,251	2,476	2,724
Contri from shareholders A/C	18,024	17,926	17,030	16,179	15,370
Total income	504,781	903,073	921,322	1,039,645	1,176,353
Commission	18,639	37,220	44,381	50,760	58,140
Employee expenses	14,459	16,244	19,370	22,097	25,310
Other opex	31,373	25,016	29,829	34,117	39,076
Benefits paid	310,042	400,060	439,119	502,136	598,066
Change in valuation of liability	98,170	406,391	370,337	409,895	431,349
Others	7,235	6,173	7,874	9,005	10,315
Provision for Tax	1,842	1,078	1,992	2,278	2,609
Surplus/(Deficit)	23,021	10,892	8,421	9,356	11,488
Transfer to shareholders A/C	20,162	14,719	11,380	12,644	15,525

Source: Company, YES Sec – Research

Exhibit 5: Shareholder account

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Transfer from Policyholders' account	20,162	14,719	11,380	12,644	15,525
Income from Investments	8,761	13,692	13,722	13,754	13,795
Total A	28,923	28,411	25,102	26,398	29,319
Expenses (apart from insurance)	1,022	1,037	1,140	1,254	1,380
Contribution to Policyholders' Acc	18,024	17,926	17,030	16,179	15,370
Others	933	502	143	143	143
Total B	19,979	19,465	18,313	17,576	16,892
Profit/(Loss) before tax	8,969	9,232	7,075	9,108	12,713
Provision for Taxation	862	708	543	699	975
Profit/(Loss) after tax	8,107	8,524	6,532	8,409	11,738

Source: Company, YES Sec – Research

Exhibit 6: Balance sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Shareholders' Funds:					
Share Capital	14,386	14,406	14,406	14,406	14,406
Reserve and surplus	83,730	92,223	98,093	105,649	116,197
Policyholders' Funds					
Policy Liabilities	903,074	1,101,621	1,335,389	1,604,224	1,913,383
Provision for Linked Liabilities	1,352,324	1,579,173	1,908,104	2,286,375	2,721,387
Fair Value change	28,327	50,273	50,273	50,273	50,273
Funds for future appropriation	16,693	12,866	15,439	18,527	22,232
Sources of Funds	2,501,592	2,935,269	3,520,262	4,194,632	4,973,001
Investments - Shareholders	98,514	105,755	105,983	106,235	106,546
Investments Policyholders	2,383,690	2,791,606	3,108,457	3,472,835	3,891,870
Fixed Assets	5,956	7,180	7,430	7,680	7,930
Net Current Assets	291	13,122	280,786	590,275	949,048
Misc. Expenditure	0	0	0	0	0
Application of funds	2,501,592	2,935,269	3,520,262	4,194,632	4,973,001

Source: Company, YES Sec – Research

Exhibit 7: Embedded Value (EV) Walk

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Opening EV	316,250	356,340	423,350	486,051	558,014
Unwind of Discount	27,080	30,710	35,985	41,314	47,431
Value of New Business	27,650	22,270	26,216	30,149	34,671
Operating Assumption Changes	(1,610)	700	2,000	2,000	2,000
Operating Experience Variance	1,760	(3,520)	1,000	1,000	1,000
EV Operating Profit (EVOP)	54,880	50,160	65,201	74,463	85,102
Economic Variance	(14,490)	16,910	0	0	0
EV Profit	40,390	67,070	65,201	74,463	85,102
Net Capital Inflow / Outflow	(300)	(60)	(2,500)	(2,500)	(2,500)
Closing EV	356,340	423,350	486,051	558,014	640,616

Source: Company, YES Sec – Research

Exhibit 8: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
APE	115,293	132,586	152,474	108,905	125,240	144,026	5.9	5.9	5.9
VNB	26,216	30,149	34,671	26,011	30,297	34,842	0.8	(0.5)	(0.5)

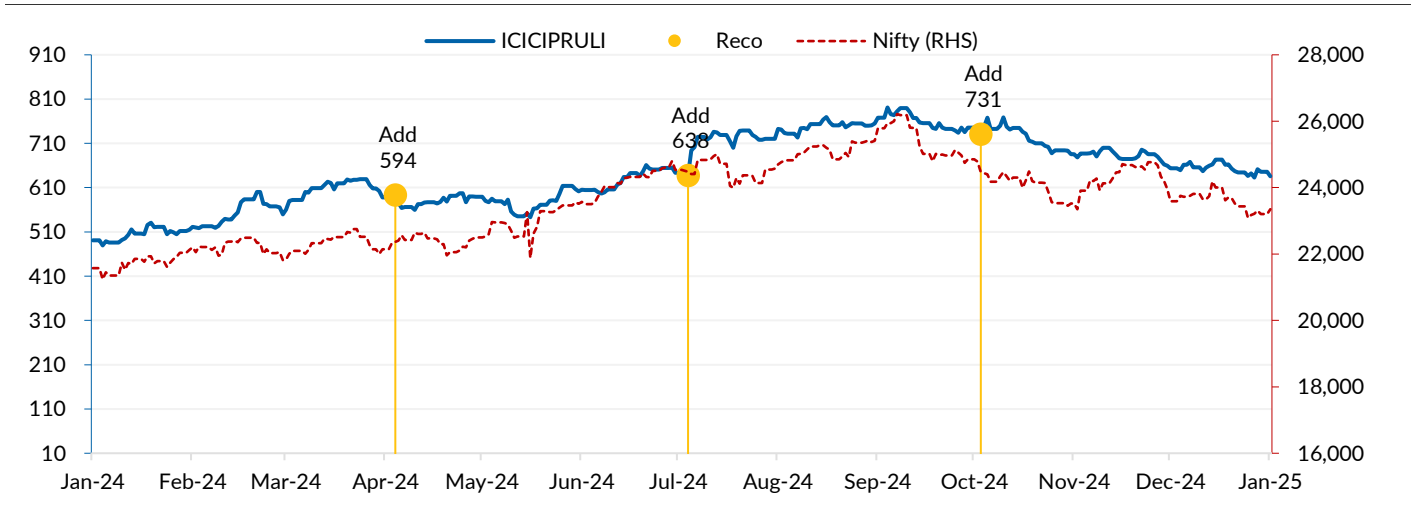
Source: Company, YES Sec – Research

Exhibit 9: Ratio analysis

Y/e 31 Mar	FY23	FY24	FY25E	FY26E	FY27E
Growth (%) - P&L					
New business premium	12.3%	7.3%	23.4%	15.0%	15.0%
Renewal premium	2.6%	9.0%	8.9%	13.8%	14.1%
Net premium	6.2%	8.3%	19.2%	14.4%	14.5%
PAT	7.5%	5.1%	-23.4%	28.7%	39.6%
VNB	27.8%	-19.5%	17.7%	15.0%	15.0%
Growth (%) - Balance Sheet					
Total AUM	4.2%	16.7%	10.9%	11.3%	11.7%
Total Assets	4.6%	17.3%	19.9%	19.2%	18.6%
Embedded value	12.7%	18.8%	14.8%	14.8%	14.8%
Profitability ratio (%)					
VNB Margin	32.0%	24.6%	22.7%	22.7%	22.7%
Expense metrics (%)					
Commission ratio	4.8%	8.9%	8.9%	8.9%	8.9%
Opex ratio	11.9%	9.9%	9.9%	9.9%	9.9%
Expense ratio	16.7%	18.8%	18.8%	18.8%	18.8%
Persistency (%)					
Conservation Ratio	80.7%	84.6%	84.6%	84.6%	84.6%
Return ratios (%)					
RoEV	17.4%	14.1%	15.4%	15.3%	15.3%
ROE	8.3%	8.0%	5.8%	7.0%	9.0%
RoA	0.3%	0.3%	0.2%	0.2%	0.3%
Investment Return (%)					
Invest. Yield - Sh.	8.9%	13.5%	13.1%	13.1%	13.1%
Invest. Yield - Ph.	4.3%	18.0%	13.7%	13.7%	13.7%
Solvency					
Solvency Ratio	209%	192%	200%	200%	200%
Underwriting					
Claims ratio	80.4%	95.8%	88.2%	88.2%	91.7%
Claims / AUM	12.5%	13.8%	13.7%	14.0%	15.0%
Per share data (Rs)					
EPS	5.6	5.9	4.5	5.8	8.1
VNBPS	19.22	15.46	18.20	20.93	24.07
BVPS	68.2	74.0	78.1	83.3	90.7
EVPS	247.7	293.9	337.4	387.3	444.7
Valuation (x)					
P/E	112.8	107.5	140.2	108.9	78.0
P/VNB	33.1	41.1	34.9	30.4	26.4
P/BV	9.3	8.6	8.1	7.6	7.0
P/EV	2.6	2.2	1.9	1.6	1.4

Source: Company, YES Sec – Research

Recommendation Tracker



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