

October 17, 2023

RESULT REPORT Q2 FY24 | Sector: Insurance (Life)

ICICI Prudential Life

Dual growth and margin challenges warrant downgrade

Result Highlights (See “Our View” below for elaboration and insight)

- **VNB margin:** Calculated VNB margin decreased by -200bps QoQ to 28.0% driven lower mainly due change in business mix
- **VNB growth:** VNB grew/de-grew 31.7%/-7.1% QoQ/YoY, where the YoY de-growth was aided by deterioration of -308bps in calculated VNB margin
- **APE growth:** New business APE grew 41.1% QoQ and 3.2% YoY, where the sequential growth was driven by Savings Linked and Group Funds segments
- **Expense control:** Expense ratio fell/rose -210/388 bps QoQ/YoY as opex ratio fell/rose -433/50bps QoQ/YoY and comm. ratio rose 223/338 bps QoQ/YoY
- **Persistency:** 13th month, 37th month and 61st month persistency ratio improved/deteriorated sequentially by 120bps, -90bps and 50bps respectively

Our view – Dual growth and margin challenges warrant downgrade

Product mix is evolving in such a manner that there is material pressure on VNB margin: The share of low-margin ULIP has risen in product mix. Further, customers have moved away from high-margin guaranteed products and into low-margin Par business and also into ULIP. Share of high-margin Annuities has also declined. While share of high-margin retail protection has risen, its overall share is still too low to move the needle.

Overall growth, though slightly improved, is still weak in the absolute sense with both segments and distribution disappointing: ICICI Bank channel has de-grown 15.3% YoY in 2Q. The only product they seem to be intent on selling is protection, which has grown 45% on the platform. The agency channel has grown slowly at 4.2% YoY in 2Q. While growth from May to August was good, growth slowed materially in September. Segments that were doing well earlier have started to disappoint.

Faster evolution of operating expenses is being flagged as sticky by the management: Total expenses have grown 27% YoY in 1HFY24. Cost to TWRP for savings line of business was at 17.2% for 1H as against 14.2% for FY23. The company continues to invest in capacity building leading to high opex growth. The rise in opex will take some time to settle down.

We downgrade to ‘Add’ rating on IPRU with a revised price target of Rs 625: We value IPRU at 1.9x FY25 P/EV for an FY24E/25E/26E RoEV profile of 15.7%/15.7%/15.8%.

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

Exhibit 1: Result table

Rs mn	Q2 FY24	Q2 FY23	% yoy	Q1 FY24	% qoq
NBP	45,342	42,530	6.6%	32,173	40.9%
Renewal premium	58,917	56,426	4.4%	41,575	41.7%
Income from investment	69,389	128,189	-45.9%	160,309	-56.7%
Surplus/(Deficit)	3,008	5,231	-42.5%	2,007	49.9%
PAT	2,443	1,995	22.4%	2,069	18.0%
Expense ratio	19.2%	15.3%	388bps	21.3%	-210bps
37th mo. Persistency*	68.9%	69.1%	-20bps	69.8%	-90bps
APE	20,620	19,990	3.2%	14,610	41.1%
VNB	5,770	6,210	-7.1%	4,380	31.7%
VNB Margin	28.0%	31.1%	-308bps	30.0%	-200bps

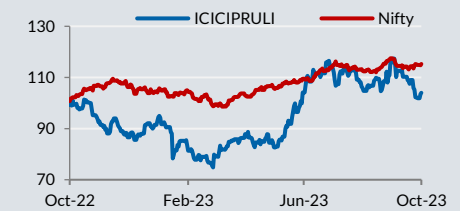
Source: Company, YES Sec-Research; *Regular / Limited Premium Payment under Individual category

Recommendation	: ADD
Current Price	: Rs 534
Target Price	: Rs 625
Potential Return	: 17%

Stock data (as on October 17, 2023)

Nifty	19,812
52 Week h/l (Rs)	616 / 381
Market cap (Rs/USD mn)	764515 / 9185
Outstanding Shares (mn)	1,440
6m Avg t/o (Rs mn):	995
Div yield (%):	0.1
Bloomberg code:	IPRU IN
NSE code:	ICICIPRULI

Stock performance



	1M	3M	1Y
Absolute return	-10.3%	-8.4%	4.7%

Shareholding pattern (As of Jun'23 end)

Promoter	73.3%
FII+DII	21.8%
Others	4.9%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	BUY
Target Price	625	750

Financial Summary

Rs mn	FY24E	FY25E	FY26E
APE	91,289	104,982	120,729
% yoy	5.7%	15.0%	15.0%
VNB	26,501	30,905	35,922
VNB Margin	29.0%	29.4%	29.8%
Reported PAT	7,204	5,135	6,359
% yoy	-11.1%	-28.7%	23.8%
EPS (Rs)	5.0	3.6	4.4
EV/Share (Rs)	282.4	322.7	369.4
RoEV	15.7%	15.7%	15.8%
P/EV (x)	1.9	1.7	1.4
P/VNB (x)	29.0	24.8	21.4

Δ in earnings estimates

Rs bn	FY24E	FY25E	FY26E
VNB (New)	26.5	30.9	35.9
VNB (Old)	32.7	39.4	47.2
% change	-18.9%	-21.6%	-23.9%

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COMPREHENSIVE CON-CALL TAKEAWAYS

VNB margin

- VNB
 - VNB for the 1H was Rs 10.15bn compared with Rs 10.92bn in 1H last year.
- VNB margin
 - The VNB margin for 1H was 28.8% compared with 31% for 1H last year.
- Factors leading to decline in margin
 - Rise in share of linked products.
 - Within non-linked savings, there is a shift from Non-Par to Par.
 - As such, Non-Par guaranteed products have seen a shift to Par and ULIP.
 - Within the affluent segment, the tendency for wealth preservation (through Guaranteed products) has declined.
 - Share of annuity products has also declined.
 - Within annuity products, there is a shift from single premium to regular premium.
 - Rise in share of retail protection not moving the needle on margin since its share is still relatively low.
- Segmental margin
 - There has no movement in Non-Par margin.
 - As such, there is no material change in segmental margin.
- Retail protection
 - The margin of the ROP product is dependent in its tenure.
 - The longer the tenure, the higher the margin of the ROP product.

Operating expenses

- Total expenses have grown 27% YoY in 1HFY24.
- Cost to TWRP for savings line of business was at 17.2% for 1H as against 14.2% for FY23.
- The company continues to invest in capacity building leading to high opex growth.
- The rise in opex will take some time to settle down.

Channel growth and mix

- Channel mix – APE terms for 1H
 - Banca – other banks – 14.8%
 - Banca – ICICI Bank – 13.6%
 - Agency – 25.5%
 - Direct – 14.4%
 - Partnership – 13.5%
 - Group – 18.1%
- Direct channel
 - The direct channel has grown well at 19.3% YoY in 2Q on the back of upselling and investment in digital strategy.
- Partnerships
 - The partnership channel, which consists of corporate agents and brokers (outside of banks), has grown 25.1% YoY in 2Q.

(Con call takeaways continue on the next page)

- ICICI Securities contributes about 2.5-3% to total APE and is counted under partnerships.
- This growth has not been driven by rise in partner count but rather through focus on individual partners wherein the company has increased share.
- **Agency channel**
 - 18000 advisors have been added during 1H.
 - The agency channel has grown slowly at 4.2% YoY in 2Q.
 - While growth from May to August was good, growth slowed materially in September.
 - The company is using analytics to study agent cohorts (and identify solutions).
 - The segment comprising ticket size in excess of Rs 0.5mn has slowed materially.
- **Bancassurance – ICICI Bank**
 - ICICI Bank channel has de-grown 15.3% YoY in 2Q.
 - However, protection has grown 45% YoY in 1H on the ICICI Bank platform.
- **Bancassurance – non ICICI Bank**
 - Non ICICI Bank channel has grown 13.0% YoY in 2Q.
 - The company added 1 bank partner in 1H and has total of 40 bank partners.

Product growth and mix

- Total APE for 1H was 35.23bn, almost flat on YoY basis.
- **Product mix – other products - APE terms for 1H**
 - Linked – 42.4%
 - Non-linked – 26.6%
 - Annuity – 6.2%
 - Group – 4.1%
- **Non-Par Savings**
 - Gift Pro is a product that is not focused on IRR but on benefits.
 - In 1 month of launch, it was 22% of Non-Par business and now, the share is 40%.
- **Protection**
 - The share of overall protection was 20.8% in 1H.
 - For the current year, protection business is roughly split into a third each of retail protection, credit life and group term.
 - Credit life has grown well at a rate faster than credit in the economy.
 - **Group term**
 - Group term has been under pressure since a large base was coming up renewal and the renewal has taken place at much lower prices.
 - After Covid receded, the experience has been better and the prices have declined.
 - While the number of deals done has actually risen 38% YoY in 1H, the pricing has declined 40-50%.
 - The company will not be focusing on growing group term but rather on defending the business and protecting its profitability.
 - **Retail protection**
 - There has been strong growth in retail protection, where the growth was 73.7% YoY, driving positive growth for overall protection to 3.4% YoY.
 - The share of retail protection grew from 3.9% in 1HFY23 to 6.7% in 1HFY24.
 - The share of ROP in retail protection is 15-20%.

(Con call takeaways continue on the next page)

- **Annuity**
 - The company is seeing good growth in regular premium annuity, which is being pushed currently.
 - Customers are not interested in single premium annuities due to high interest rates being offered on bank FDs.
 - Overall, annuity APE has de-grown 6.7% YoY in 2Q.
- **On overall APE growth guidance**
 - Management stated that, as such, they had not provided any guidance earlier.
 - What they had stated is that they would strive to match industry growth but had not provided a timeline for the same.

Embedded Value

- Embedded value has grown 18% YoY to Rs 385.29bn.
- **Economic variance**
 - The EV walk has not been provided but the impact is a positive one.

Commissions

- After relaxation of guidelines, commission levels have moved up.
- This situation has not stabilized and is still in a state of flux.

Persistency

- 13th month persistency for 5MFY24 has improved to 86.9% from 85.4% in FY23.
- The 49th month persistency for 5MFY24 has improved to 65.8% from 63.9% in FY23.

Solvency ratio

- The solvency ratio stood at 199.4% as of 2Q compared with 203.4% as of 1Q.

Claim settlement

- The claim settlement ratio stood at 97.9% as of 1QFY24.

New G-sec Bonds for Investment

- 50-year G-sec bond to be launched in H2 would be a positive for the life insurance industry.

Exhibit 2: Quarterly Actuals Vs Estimates

Q2FY24 (Rs. mn)	Actuals	Estimates	Diff, %
New Business Premium	45,342	47,269	(4.1)
Total APE	20,620	21,271	(3.1)
VNB	5,770	6,488	(11.1)

Source: Company, YES Sec – Research

Exhibit 3: Other Business Parameters

	Q2 FY24	Q2 FY23	% yoy	Q1 FY24	% qoq
APE Mix (Rs mn)					
Savings	16,720	16,190	3.3%	11,170	49.7%
Linked	9,270	8,200	13.0%	5,660	63.8%
Non-Linked	5,320	5,760	-7.6%	4,040	31.7%
Annuity	1,260	1,350	-6.7%	910	38.5%
Group funds	880	870	1.1%	550	60.0%
Protection	3,900	3,800	2.6%	3,440	13.4%
Retail Protection	1,270	690	84.1%	1,110	14.4%
Total APE	20,620	19,990	3.2%	14,610	41.1%
APE Mix (% proportion)					
Savings	81.1%	81.0%	10bps	76.5%	463bps
Linked	45.0%	41.0%	394bps	38.7%	622bps
Non-Linked	25.8%	28.8%	-301bps	27.7%	-185bps
Annuity	6.1%	6.8%	-64bps	6.2%	-12bps
Group funds	4.3%	4.4%	-8bps	3.8%	50bps
Protection	18.9%	19.0%	-10bps	23.5%	-463bps
Retail Protection	6.2%	3.5%	271bps	7.6%	-144bps
Total APE	100.0%	100.0%	na	100.0%	na
Distribution mix (Rs mn)					
Bancassurance	5,780	5,960	-3.0%	4,230	36.6%
Agency	5,420	5,200	4.2%	3,570	51.8%
Direct	2,970	2,490	19.3%	2,120	40.1%
Partnership distribution	2,940	2,360	24.6%	1,810	62.4%
Group	3,510	3,980	-11.8%	2,880	21.9%
Distribution mix (% proportion)					
Bancassurance	28.0%	29.8%	-178bps	29.0%	-92bps
Agency	26.3%	26.0%	27bps	24.4%	185bps
Direct	14.4%	12.5%	195bps	14.5%	-11bps
Partnership distribution	14.3%	11.8%	245bps	12.4%	187bps
Group	17.0%	19.9%	-289bps	19.7%	-269bps
Persistence Ratios*					
13 th month	85.6%	83.2%	240bps	84.4%	120bps
61 st month	61.9%	64.1%	-220bps	61.4%	50bps
Expense Metrics					
Commission ratio	7.7%	4.3%	338bps	5.5%	223bps
Opex ratio	11.5%	11.0%	50bps	15.8%	-433bps
Solvency					
Solvency ratio	199%	201%	-130bps	203%	-400bps

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)	FY22	FY23	FY24E	FY25E	FY26E
Net premium	363,213	385,595	416,595	457,618	508,947
Income from investments	249,695	99,646	315,013	348,329	386,643
Other income	1,126	1,516	1,516	1,516	1,516
Contri from shareholders A/C	21,611	18,024	17,123	16,267	15,454
Total income	635,645	504,781	750,247	823,730	912,559
Commission	16,729	18,639	20,137	22,120	24,601
Employee expenses	11,970	14,459	15,621	17,160	19,084
Other opex	24,759	31,373	33,896	37,233	41,410
Benefits paid	293,588	310,042	333,085	359,659	390,308
Change in valuation of liability	257,838	98,170	318,818	361,493	409,278
Others	7,195	7,235	7,140	7,844	8,723
Provision for Tax	1,662	1,842	1,666	1,830	2,036
Surplus/(Deficit)	21,904	23,021	19,882	16,390	17,118
Transfer to shareholders A/C	21,602	20,162	17,413	14,354	14,992

Source: Company, YES Sec – Research

Exhibit 5: Shareholder account

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Transfer from Policyholders' account	21,602	20,162	17,413	14,354	14,992
Income from Investments	10,114	8,761	8,792	8,817	8,844
Total A	31,716	28,923	26,205	23,172	23,836
Expenses (apart from insurance)	1,024	1,022	1,124	1,236	1,360
Contribution to Policyholders' Acc	21,611	18,024	17,123	16,267	15,454
Others	1,220	933	13	13	13
Total B	23,855	19,979	18,260	17,516	16,826
Profit/(Loss) before tax	7,906	8,969	7,971	5,681	7,035
Provision for Taxation	364	862	766	546	676
Profit/(Loss) after tax	7,541	8,107	7,204	5,135	6,359

Source: Company, YES Sec – Research

Exhibit 6: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Shareholders' Funds:					
Share Capital	14,373	14,386	14,386	14,386	14,386
Reserve and surplus	75,915	83,730	90,167	94,755	100,437
Policyholders' Funds					
Policy Liabilities	736,822	903,074	1,073,022	1,268,463	1,493,220
Provision for Linked Liabilities	1,405,414	1,352,324	1,395,873	1,445,955	1,503,550
Fair Value change	28,954	28,327	28,327	28,327	28,327
Funds for future appropriation	13,833	16,693	20,031	24,037	28,845
Sources of Funds	2,391,903	2,501,592	2,742,515	3,017,815	3,336,074
Investments - Shareholders	98,535	98,514	98,862	99,149	99,449
Investments Policyholders	2,282,543	2,383,690	2,625,111	2,902,744	3,222,023
Fixed Assets	4,872	5,956	6,206	6,456	6,706
Net Current Assets	(3,449)	287	(805)	(3,676)	(5,245)
Misc. Expenditure	0	0	0	0	0
Application of funds	2,391,903	2,501,592	2,742,515	3,017,815	3,336,074

Source: Company, YES Sec – Research

Exhibit 7: Embedded Value (EV) Walk

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Opening EV	291,060	316,250	356,340	406,210	464,174
Unwind of Discount	20,850	27,080	26,369	30,060	34,349
Value of New Business	21,630	27,650	26,501	30,905	35,922
Operating Assumption Changes	(910)	(1,610)	2,000	2,000	2,000
Operating Experience Variance	(9,650)	1,760	1,000	1,000	1,000
EV Operating Profit (EVOP)	31,920	54,880	55,870	63,964	73,271
Economic Variance	(4,370)	(14,490)	0	0	0
EV Profit	27,550	40,390	55,870	63,964	73,271
Net Capital Inflow / Outflow	(2,360)	(300)	(6,000)	(6,000)	(6,000)
Closing EV	316,250	356,340	406,210	464,174	531,445

Source: Company, YES Sec – Research

Exhibit 8: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
APE	91,289	104,982	120,729	100,832	119,292	141,188	(9.5)	(12.0)	(14.5)
VNB	26,501	30,905	35,922	32,690	39,428	47,176	(18.9)	(21.6)	(23.9)
EV	406,210	464,174	531,445	412,399	479,345	558,992	(1.5)	(3.2)	(4.9)

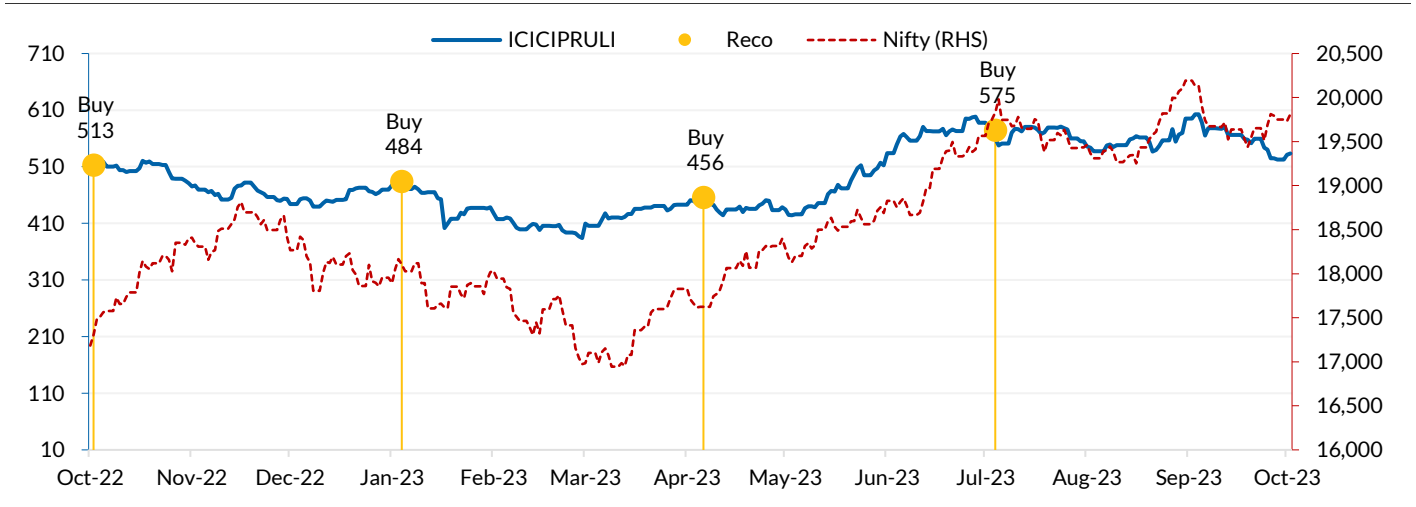
Source: Company, YES Sec – Research

Exhibit 9: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth (%) - P&L					
New business premium	17.2%	12.3%	4.9%	15.0%	15.0%
Renewal premium	-2.4%	2.6%	3.9%	5.8%	8.0%
Net premium	3.9%	6.2%	8.0%	9.8%	11.2%
PAT	-21.5%	7.5%	-11.1%	-28.7%	23.8%
VNB	33.4%	27.8%	-4.2%	16.6%	16.2%
Growth (%) - Balance Sheet					
Total AUM	12.2%	4.2%	9.7%	10.2%	10.6%
Total Assets	12.0%	4.6%	9.6%	10.0%	10.5%
Embedded value	8.6%	12.7%	14.0%	14.3%	14.5%
Profitability ratio (%)					
VNB Margin	28.0%	32.0%	29.0%	29.4%	29.8%
Expense metrics (%)					
Commission ratio	4.6%	4.8%	4.8%	4.8%	4.8%
Opex ratio	10.1%	11.9%	11.9%	11.9%	11.9%
Expense ratio	14.7%	16.7%	16.7%	16.7%	16.7%
Persistency (%)					
Conservation Ratio	79.3%	80.7%	80.7%	80.7%	80.7%
Return ratios (%)					
RoEV	11.0%	17.4%	15.7%	15.7%	15.8%
ROE	8.4%	8.3%	6.9%	4.7%	5.5%
RoA	0.3%	0.3%	0.3%	0.2%	0.2%
Investment Return (%)					
Invest. Yield - Sh.	10.2%	8.9%	8.9%	8.9%	8.9%
Invest. Yield - Ph.	11.6%	4.3%	12.6%	12.6%	12.6%
Solvency					
Solvency Ratio	204%	209%	205%	200%	200%
Underwriting					
Claims ratio	80.8%	80.4%	80.0%	78.6%	76.7%
Claims / AUM	12.3%	12.5%	12.2%	12.0%	11.8%
Per share data (Rs)					
EPS	5.2	5.6	5.0	3.6	4.4
VNBPS	15.05	19.22	18.42	21.48	24.97
BVPS	62.8	68.2	72.7	75.9	79.8
EVPS	220.0	247.7	282.4	322.7	369.4
Valuation (x)					
P/E	101.7	94.7	106.6	149.5	120.7
P/VNB	35.5	27.8	29.0	24.8	21.4
P/BV	8.5	7.8	7.3	7.0	6.7
P/EV	2.4	2.2	1.9	1.7	1.4

Source: Company, YES Sec – Research

Recommendation Tracker



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