

July 23, 2024

**RESULT REPORT Q1 FY25** | Sector: Insurance (Life)

# ICICI Prudential Life

**Margin and growth outcomes improve but positives are somewhat priced in**

**Our view – Product level margin focus aids VNB margin whereas ULIP and annuities drive growth**

**VNB margin** – VNB margin rose YoY, with the company continuing to focus on improving product level margin: The VNB margin for 1QFY25 was 24.0%, down -593 bps QoQ but up 258bps YoY. Management stated that it is more appropriate to look at the evolution of margin in 1QFY25 compared with FY24 as a whole as opposed to looking at 4QFY24 only. As regards surrender rules impact, management stated that the impacted portfolio is about 17% of business, which could see a 1-2% margin impact and so, the overall impact would be minimal. The VNB margin of 24% for the quarter has been achieved despite a high share for ULIP of about 50%. The company does not target a product mix but does try to maximise product level margin through tenure, riders and other factors.

**APE growth** – APE growth YoY looked far healthier than it has in recent times, with both agency and banca supporting: Overall APE in 1Q grew by 34.4% YoY to Rs 19.63bn. Within this, retail APE in 1Q grew by 42.2% YoY to Rs 16.66 bn whereas group APE in 1Q grew by 2.8% YoY to Rs 2.97 bn. The company is aiming to grow higher than the industry growth in FY25. The agency channel has grown 61.6% YoY in 1Q and contributed 29.4% to APE. The company has onboarded 12,062 agents in 1Q and the total agents were at 211,000 plus. The bancassurance APE has grown 33.6% YoY in 1Q and contributed 28.8% to APE. The total banca partners are at 43 which gives the company access to 21,500 branches. ICICI Bank is delivering a topline of Rs 1bn per month and is doing well on retail protection. Non-ICICI banca has grown 31% YoY, with the company having invested in creating an enablement framework for partners.

We rate IPRU a relatively cautious 'ADD' with a price target of Rs 750: We value IPRU at 1.9x FY26 P/EV for an FY25E/26E RoEV profile of 15.4%/15.4%.

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

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

- **VNB growth:** VNB de-grew/grew -39.2%/7.8% QoQ/YoY, where the YoY growth was aided by growth in APE
- **Expense control:** Expense ratio rose 797/392bps QoQ/YoY as opex ratio rose/fell 655/-263bps QoQ/YoY and comm. ratio rose 142/655bps QoQ/YoY
- **Persistency:** 13<sup>th</sup> month, 37<sup>th</sup> month and 61<sup>st</sup> month persistency ratio improved sequentially by 190bps, 170bps and 10bps respectively

## Exhibit 1: Result table

Rs mn	Q1 FY25	Q1 FY24	% yoy	Q4 FY24	% qoq
NBP	39,488	32,173	22.7%	67,220	-41.3%
Renewal premium	43,350	41,575	4.3%	84,281	-48.6%
Income from investment	173,533	160,309	8.2%	72,653	138.9%
Surplus/(Deficit)	2,843	2,007	41.6%	2,059	38.1%
PAT	2,254	2,069	8.9%	1,738	29.7%
Expense ratio	25.2%	21.3%	392bps	17.2%	797bps
37th mo. Persistency*	72.9%	69.8%	310bps	71.2%	170bps
APE	19,630	14,610	34.4%	36,160	-45.7%
VNB	4,720	4,380	7.8%	7,760	-39.2%
VNB Margin	24.0%	30.0%	-593bps	21.5%	258bps

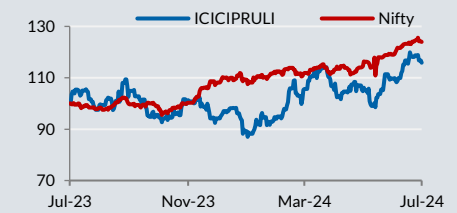
Source: Company, YES Sec-Research; \*Regular / Limited Premium Payment under Individual category

Recommendation	: ADD
Current Price	: Rs 638
Target Price	: Rs 750
Potential Return	: +17%

## Stock data (as on July 23, 2024)

Nifty	24,479
52 Week h/l (Rs)	674 / 463
Market cap (Rs/USD mn)	913904 / 10925
Outstanding Shares (mn)	1,442
6m Avg t/o (Rs mn):	1,167
Div yield (%):	0.1
Bloomberg code:	IPRU IN
NSE code:	ICICIPRULI

## Stock performance



	1M	3M	1Y
Absolute return	5.6%	7.5%	15.9%

## Shareholding pattern (As of Mar'24 end)

Promoter	73.2%
FII+DII	21.9%
Others	4.9%

## Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	750	725

## Financial Summary

Rs mn	FY24	FY25E	FY26E
APE	90,470	104,994	120,743
% yoy	4.7%	16.1%	15.0%
VNB	22,270	26,172	30,471
VNB Margin	24.6%	24.9%	25.2%
Reported PAT	8,524	8,737	429
% yoy	5.1%	2.5%	-95.1%
EPS (Rs)	5.9	6.1	0.3
EV/Share (Rs)	293.9	337.4	387.5
RoEV	14.1%	15.4%	15.4%
P/EV (x)	2.2	1.9	1.6
P/VNB (x)	41.3	35.1	30.2

## Δ in earnings estimates

Rs bn	FY24E	FY25E	FY26E
VNB (New)	NA	26.2	30.5
VNB (Old)	NA	25.9	30.2
% change	NA	0.9%	0.9%

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## COMPREHENSIVE CON-CALL TAKEAWAYS

### VNB margin

- VNB margin
  - Quarterly margin
    - The VNB margin for 1QFY25 was 24.0%, down -593 bps QoQ but up 258bps YoY.
    - It is more appropriate to look at the evolution of margin in 1QFY25 compared with FY24 as a whole as opposed to looking at 4QFY24 only.
  - Surrender rules impact
    - The old set of products will cease to exist on 30<sup>th</sup> September.
    - Through product change the company believes it will absorb any change that will come due to this regulation.
    - There is a part of the company's distribution which is already selling level commission or trail commission products and the company is not losing margin in these products.
    - The impact on the company will be quite muted compared with the rest of the industry.
    - The impacted portfolio is about 17% of business, which could see 1-2% margin impact and so, the overall impact would be minimal.
    - More colour
      - 100% Money Back product
        - Before the regulation changes, the company has launched ICICI Pru Guaranteed Pension Plan Flexi with benefit enhancers which provide customers options to receive 100% money back.
        - The commissions structure in this product is more level based while keeping the overall lifetime payment at a similar level.
        - The product was well accepted in the market segments.
      - ULIP
        - The company has also experimented with trail-based commissions on ULIP platform and saw acceptance by distributors in the market segment where it was launched.
  - Product mix considerations
    - The VNB margin of 24% for the quarter has been achieved despite a high share for ULIP of about 50%.
    - The company does not target a product mix but does try to maximise product level margin through tenure, riders and other factors.

### Overall APE growth

- Overall APE in 1Q grew by 34.4% YoY to Rs 19.63bn.
- Retail APE in 1Q grew by 42.2% YoY to Rs 16.66 bn.
- Group APE in 1Q grew by 2.8% YoY to Rs 2.97 bn.
- Guidance
  - The company is aiming to grow higher than the industry growth in FY25.

### Channel growth and mix

- Agency channel
  - The agency channel has grown 61.6% YoY in 1Q and contributed 29.4% to APE.
  - Robust growth in agency channel due to investments in distribution capacity, capabilities and products.

(Con call takeaways continue on the next page)

- The company has onboarded 12,062 agents in 1Q and the total agents were at 211,000 plus.
- **Bancassurance**
  - The bancassurance APE has grown 33.6% YoY in 1Q and contributed 28.8% to APE.
  - The total banca partners are at 43 which gives the company access to 21,500 branches.
  - **ICICI Bank**
    - ICICI Bank is delivering a topline of Rs 1bn per month.
    - The bank is doing well on retail protection.
  - **Non-ICICI Bank**
    - Non-ICICI banca has grown 31% YoY.
    - The company has invested in creating an enablement framework for partners.
- **Partnership distribution**
  - The partnership distribution channel grew 24.9% YoY in 1Q and contributed 11.5% to APE.
  - The company added 47 new non-bank partnerships in 1Q taking the total to 1,159.
  - Partnership distribution is relatively slow because this channel priorities non-ULIP products.
- **Direct channel**
  - The direct channel grew 40.6% YoY in 1Q and contributed 15.2% to APE.
  - Direct business contributed 17.9% to retail APE in 1Q.
- **Multi-line insurance**
  - Multi-line insurance, which is Non-ICICI banca and partnership distribution both put together are 23% of total business.
  - Since partnership distribution is 11.5%, the remaining is Non-ICICI banca.

## Product growth and mix

- **Linked business**
  - Linked product APE was up 78.3% YoY in 1Q and contributed 51.4% to APE.
- **Non-linked savings**
  - Non-linked savings APE (Par + Non-Par) de-grew -18.1% YoY in 1Q and contributed 16.8% to APE.
  - **Par-Non Par split**
    - The Par-Non Par split is two third – one third.
- **Annuity business**
  - Annuity business APE grew 135% YoY in 1Q and contributed 10.9% to APE.
  - The company has done well in the Annuities segment driven by a focus on customers at 50 years of age.
  - A larger portion of annuities is regular pay but single pay is also material.
- **Group funds business**
  - Group funds business APE de-grew -1.8% YoY in 1Q and contributed 2.8% to APE.
- **Protection business**
  - Total Protection APE grew 3.2% YoY in 1Q and contributed 18.1% to APE.
  - **Credit life**
    - The company is growing credit life at twice the pace of system credit growth.
  - **Group term life**
    - This business comes up for renewal every year and 12-13% does not get renewed.
    - The growth in this business has been subdued due to competitive practices.

(Con call takeaways continue on the next page)

- **Retail protection**
  - Within this, retail protection APE grew 1.8% YoY in 1Q and contributed 5.7% to APE.
  - Price interventions by the company as well as competition have caused a short-term impact.
  - The company is confident that absolute business will come back.

## Persistency

- The 13th month and 49th month persistency figures were 89.7% and 70.7%, respectively.

## Expenses

- **Cost to TWRP**
  - Cost to TWRP for 1Q amounted to 32.6% as against 27.7% in 1QFY24.
  - Cost to TWRP has gone up due to the impact of the new commission guidelines since, even in 1Q, the company was working on it.
  - This aspect has now largely been addressed.
  - The cost to TWRP for the Savings LOB amounted to 19.2% as against 15.8% in FY24.
- **Commissions**
  - The redesign of the commission structure started in Q1FY24 and continued into the later quarters of the year. Thus, there is a YoY increase in the commission expenses in Q1FY25.

## Solvency

- The Solvency Ratio stood at 187.9% as of 1QFY25 compared with 203.4% in 1QFY24.

## AUM

- The total asset under management stood at Rs 3,088.75bn up by 15.9% YoY.

## IFRS

- The RoE under the Indian GAAP is of little value and the true RoE will emerge under IFRS.
- As of now, the RoEV is a more relevant metric than the RoE.

## Exhibit 2: Quarterly Actuals Vs Estimates

Q1FY25 (Rs. mn)	Actuals	Estimates	Diff, %
New Business Premium	39,488	41,109	(3.9)
Total APE	19,630	20,428	(3.9)
VNB	4,720	4,588	2.9

Source: Company, YES Sec – Research

## Exhibit 3: Other Business Parameters

	Q1 FY25	Q1 FY24	% yoy	Q4 FY24	% qoq
<b>APE Mix (Rs mn)</b>					
Savings	16,080	11,170	44.0%	31,830	-49.5%
Linked	10,090	5,660	78.3%	15,720	-35.8%
Non-Linked	3,310	4,040	-18.1%	8,800	-62.4%
Annuity	2,140	910	135.2%	6,140	-65.1%
Group funds	540	550	-1.8%	1,170	-53.8%
Protection	3,550	3,440	3.2%	4,330	-18.0%
Retail Protection	1,120	1,110	0.9%	1,360	-17.6%
Total APE	19,630	14,610	34.4%	36,160	-45.7%
<b>APE Mix (% proportion)</b>					
Savings	81.9%	76.5%	546bps	88.0%	-611bps
Linked	51.4%	38.7%	1266bps	43.5%	793bps
Non-Linked	16.9%	27.7%	-1079bps	24.3%	-747bps
Annuity	10.9%	6.2%	467bps	17.0%	-608bps
Group funds	2.8%	3.8%	-101bps	3.2%	-48bps
Protection	18.1%	23.5%	-546bps	12.0%	611bps
Retail Protection	5.7%	7.6%	-189bps	3.8%	194bps
Total APE	100.0%	100.0%	na	100.0%	na
<b>Distribution mix (Rs mn)</b>					
Bancassurance	5,650	4,230	33.6%	10,800	-47.7%
Agency	5,770	3,570	61.6%	11,610	-50.3%
Direct	2,980	2,120	40.6%	4,740	-37.1%
Partnership distribution	2,260	1,810	24.9%	4,870	-53.6%
Group	2,970	2,880	3.1%	4,140	-28.3%
<b>Distribution mix (% proportion)</b>					
Bancassurance	28.8%	29.0%	-17bps	29.9%	-108bps
Agency	29.4%	24.4%	496bps	32.1%	-271bps
Direct	15.2%	14.5%	67bps	13.1%	207bps
Partnership distribution	11.5%	12.4%	-88bps	13.5%	-195bps
Group	15.1%	19.7%	-458bps	11.4%	368bps
<b>Persistence Ratios*</b>					
13 <sup>th</sup> month	89.3%	84.4%	490bps	87.4%	190bps
61 <sup>st</sup> month	65.2%	64.2%	100bps	65.1%	10bps
<b>Expense Metrics</b>					
Commission ratio	12.0%	5.5%	655bps	10.6%	142bps
Opex ratio	13.2%	15.8%	-263bps	6.7%	655bps
<b>Solvency</b>					
Solvency ratio	188%	203%	-1550bps	192%	-390bps

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	FY24	FY25E	FY26E
Net premium	363,213	385,595	417,597	477,343	538,860
Income from investments	249,695	99,646	465,503	399,701	442,011
Other income	1,126	1,516	2,046	2,251	2,476
Contri from shareholders A/C	21,611	18,024	17,926	17,030	16,179
<b>Total income</b>	<b>635,645</b>	<b>504,781</b>	<b>903,073</b>	<b>896,325</b>	<b>999,526</b>
Commission	16,729	18,639	37,220	42,545	48,028
Employee expenses	11,970	14,459	16,244	18,568	20,908
Other opex	24,759	31,373	25,016	28,595	32,280
Benefits paid	293,588	310,042	400,060	426,702	499,831
Change in valuation of liability	257,838	98,170	406,391	360,274	384,832
Others	7,195	7,235	6,173	7,548	8,521
Provision for Tax	1,662	1,842	1,078	1,909	2,155
<b>Surplus/(Deficit)</b>	<b>21,904</b>	<b>23,021</b>	<b>10,892</b>	<b>10,185</b>	<b>2,972</b>
Transfer to shareholders A/C	21,602	20,162	14,719	13,763	4,016

Source: Company, YES Sec - Research

### Exhibit 5: Shareholder account

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Transfer from Policyholders' account	21,602	20,162	14,719	13,763	4,016
Income from Investments	10,114	8,761	13,692	13,728	13,738
<b>Total A</b>	<b>31,716</b>	<b>28,923</b>	<b>28,411</b>	<b>27,491</b>	<b>17,754</b>
Expenses (apart from insurance)	1,024	1,022	1,037	1,140	1,254
Contribution to Policyholders' Acc	21,611	18,024	17,926	17,030	16,179
Others	1,220	933	502	143	143
Total B	23,855	19,979	19,465	18,313	17,576
Profit/(Loss) before tax	7,906	8,969	9,232	9,464	464
Provision for Taxation	364	862	708	726	36
<b>Profit/(Loss) after tax</b>	<b>7,541</b>	<b>8,107</b>	<b>8,524</b>	<b>8,737</b>	<b>429</b>

Source: Company, YES Sec - Research

## Exhibit 6: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Shareholders' Funds:					
Share Capital	14,373	14,386	14,406	14,406	14,406
Reserve and surplus	75,915	83,730	92,223	100,075	100,460
Policyholders' Funds					
Policy Liabilities	736,822	903,074	1,101,621	1,323,470	1,578,597
Provision for Linked Liabilities	1,405,414	1,352,324	1,579,173	1,840,049	2,140,057
Fair Value change	28,954	28,327	50,273	50,273	50,273
Funds for future appropriation	13,833	16,693	12,866	15,439	18,527
<b>Sources of Funds</b>	<b>2,391,903</b>	<b>2,501,592</b>	<b>2,935,269</b>	<b>3,442,270</b>	<b>4,017,499</b>
Investments - Shareholders	98,535	98,514	105,755	106,030	106,110
Investments Policyholders	2,282,543	2,383,690	2,791,606	3,074,619	3,400,085
Fixed Assets	4,872	5,956	7,180	7,430	7,680
Net Current Assets	(3,449)	291	13,122	236,584	486,017
Misc. Expenditure	0	0	0	0	0
<b>Application of funds</b>	<b>2,391,903</b>	<b>2,501,592</b>	<b>2,935,269</b>	<b>3,442,270</b>	<b>4,017,499</b>

Source: Company, YES Sec – Research

## Exhibit 7: Embedded Value (EV) Walk

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Opening EV	291,060	316,250	356,340	423,350	486,006
Unwind of Discount	20,850	27,080	30,710	35,985	41,311
Value of New Business	21,630	27,650	22,270	26,172	30,471
Operating Assumption Changes	(910)	(1,610)	700	2,000	2,000
Operating Experience Variance	(9,650)	1,760	(3,520)	1,000	1,000
<b>EV Operating Profit (EVOP)</b>	<b>31,920</b>	<b>54,880</b>	<b>50,160</b>	<b>65,156</b>	<b>74,782</b>
Economic Variance	(4,370)	(14,490)	16,910	0	0
<b>EV Profit</b>	<b>27,550</b>	<b>40,390</b>	<b>67,070</b>	<b>65,156</b>	<b>74,782</b>
Net Capital Inflow / Outflow	(2,360)	(300)	(60)	(2,500)	(2,500)
<b>Closing EV</b>	<b>316,250</b>	<b>356,340</b>	<b>423,350</b>	<b>486,006</b>	<b>558,288</b>

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	NA	104,994	120,743	NA	104,041	119,647	NA	0.9	0.9
VNB	NA	26,172	30,471	NA	25,948	30,208	NA	0.9	0.9

Source: Company, YES Sec – Research

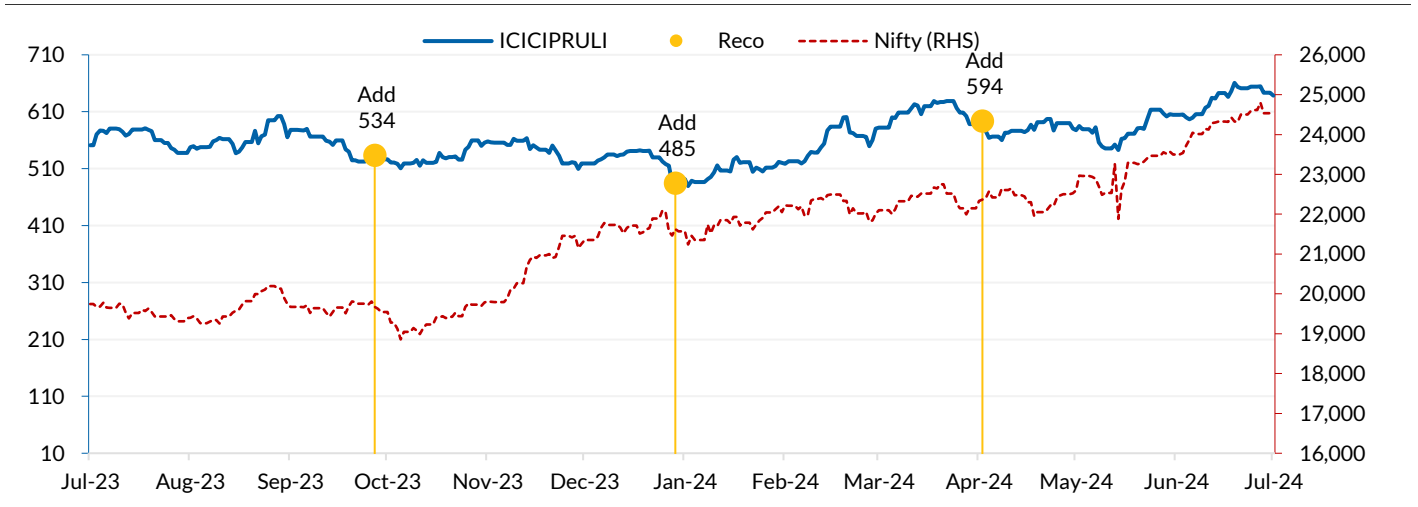
## Exhibit 9: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
<b>Growth (%) - P&amp;L</b>					
New business premium	17.2%	12.3%	7.3%	12.4%	15.0%
Renewal premium	-2.4%	2.6%	9.0%	8.9%	11.2%
Net premium	3.9%	6.2%	8.3%	14.3%	12.9%
PAT	-21.5%	7.5%	5.1%	2.5%	-95.1%
VNB	33.4%	27.8%	-19.5%	17.5%	16.4%
<b>Growth (%) - Balance Sheet</b>					
Total AUM	12.2%	4.2%	16.7%	9.8%	10.2%
Total Assets	12.0%	4.6%	17.3%	17.3%	16.7%
Embedded value	8.6%	12.7%	18.8%	14.8%	14.9%
<b>Profitability ratio (%)</b>					
VNB Margin	28.0%	32.0%	24.6%	24.9%	25.2%
<b>Expense metrics (%)</b>					
Commission ratio	4.6%	4.8%	8.9%	8.9%	8.9%
Opex ratio	10.1%	11.9%	9.9%	9.9%	9.9%
Expense ratio	14.7%	16.7%	18.8%	18.8%	18.8%
<b>Persistence (%)</b>					
Conservation Ratio	79.3%	80.7%	84.6%	84.6%	84.6%
<b>Return ratios (%)</b>					
RoEV	11.0%	17.4%	14.1%	15.4%	15.4%
ROE	8.4%	8.3%	8.0%	7.6%	0.4%
RoA	0.3%	0.3%	0.3%	0.3%	0.0%
<b>Investment Return (%)</b>					
Invest. Yield - Sh.	10.2%	8.9%	13.5%	13.1%	13.1%
Invest. Yield - Ph.	11.6%	4.3%	18.0%	13.6%	13.7%
<b>Solvency</b>					
Solvency Ratio	204%	209%	192%	200%	200%
<b>Underwriting</b>					
Claims ratio	80.8%	80.4%	95.8%	89.4%	92.8%
Claims / AUM	12.3%	12.5%	13.8%	13.4%	14.3%
<b>Per share data (Rs)</b>					
EPS	5.2	5.6	5.9	6.1	0.3
VNBPS	15.05	19.22	15.46	18.17	21.15
BVPS	62.8	68.2	74.0	79.5	79.7
EVPS	220.0	247.7	293.9	337.4	387.5
<b>Valuation (x)</b>					
P/E	121.7	113.3	107.9	105.3	2,145.7
P/VNB	42.4	33.2	41.3	35.1	30.2
P/BV	10.2	9.4	8.6	8.0	8.0
P/EV	2.9	2.6	2.2	1.9	1.6

Source: Company, YES Sec – Research



## Recommendation Tracker



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