

Premium income increased; however; margins continue to slide

Q4FY24 Result Update | Sector: Insurance | April 24, 2024

Steady increase in premium income: ICICI Prudential Life Insurance reported healthy top-line growth as the net premium income increased by 17.1% YoY to Rs 14,788cr. Both first year premium and single premium showed strong growth of 11.9%/20.7% YoY while renewal premium increased by 16.6%. The insurance launched new products across segment which gained traction during the year and saw healthy premium sale. The management expect such growth momentum to continue going forward in FY25.

Margins continue to slide: The insurance company saw decline in its VNB margin by 140bps QoQ/1052bps YoY to 21.5% as the commission expenses saw a sharp increase of 56.3% QoQ/107.8% YoY along with higher sale of ULIP products. During the year, VNB margin declined by 738bps YoY to 24.6% as compared to 32% in FY23. The management expects margin to improve going forward as the commission costs normalises along with shift in consumer preference towards other form of high margin products.

Diverse distribution channels: The company's distribution channel remained diverse as channels like Banca/Agency/Direct saw traction. The company has established relationship with banks like Standard Chartered to sell its policies. During the quarter, Banca/Agency/Direct contribution in the overall APE mix increased by 229/471/133bps YoY, however, partnership and group channels declined by 640bps/193bps YoY. The company shall continue to focus on increasing its capacity by onboarding new agency to sell its policies which shall provide further access to tier 2/3 cities.

Improvement in persistency ratios: One of the key highlights of the outcome is the improvement in persistency ratios for the insurance company across cohorts. The insurance company continues to provide products which caters to the customer needs and expectations. The company saw improvement in its persistency ratio across cohorts as the 13/25/37/49/61 month's persistency ratio stood at 88%/79%/72%/68%/64% as compared to 82%/76%/69%/63%/63% in Q4FY23. The persistency has improved even as the customer preference saw a shift towards ULIP products which tends to be less sticky as compared to other products like non-participating.

Linked products continue to see traction: During the quarter, the company saw traction in funds like linked products, annuity products while non-linked products continued to see decline. In the APE mix, linked products increased by 1656bps YoY to 43.5% while annuity products increased by 1183bps YoY to 17%. The management expects that going forward it expects to see traction in other products as well like non-linked and protection which shall aid margins.

Valuation and outlook: ICICI Prudential Life Insurance saw healthy growth in its top-line, however, margin continue to decline similar to last quarters of FY24. Commission costs remained elevated in adherence to the new commission structure which further put pressure on margins. Products like linked and annuity gained traction. Financially, we expect APE/NBP/VNB to grow at a CAGR of 10%/11%/17% over FY24-26. The company is expected to see challenges in FY25 which regards to margins and increase in its operating costs. Hence, we revise our rating to **Accumulate** from Buy with a revised target price of **Rs 670** valuing the company at 1.6x of its FY26E embedded value per share.

Financial Summary - consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Gross premiums	39,933	43,236	47,301	50,934
Total Income	50,478	90,307	57,130	62,325
Total Benefits	40,606	80,645	45,599	49,631
Surplus/(Deficit) after tax	1,102	-81	1,488	1,343
APE	8,640	9,046	9,444	10,865
VNB	2,765	2,227	2,567	3,058
New business premium (NBP)	16,922	18,081	20,266	22,080
Embedded value (EV)	35,639	41,989	49,660	58,687
EV per share (Rs)	247.0	291.0	344.2	406.7
P/EV (x)	2.4	2.0	1.7	1.5

Source : RBL Research

ACCUMULATE

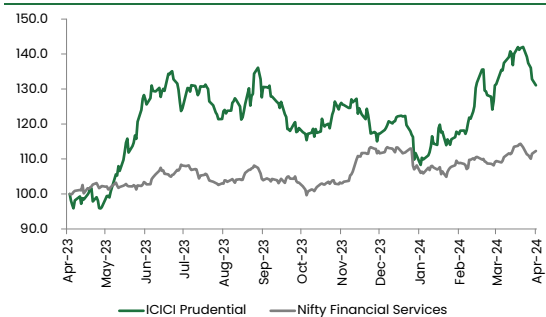
CMP (Rs)	594
Target Price (Rs)	670
Potential Upside	13%
Sensex	73,738
Nifty	22,368

Key Stock data

BSE Code	540133
NSE Code	ICICIPRULI
Bloomberg	IPRU:IN
Shares o/s, Cr (FV 10)	144.1
Market Cap (Rs Cr)	85,556
3M Avg Volume	2,216,819
52 week H/L	641/420

Shareholding Pattern

(%)	Sep-23	Dec-23	Mar-24
Promoter	73.29	73.27	73.24
FII	15.51	14.73	13.35
DII	6.37	6.92	8.54
Public	4.81	5.06	4.85

1 year relative price performance

1 year P/EV Forward (x)

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Con-call highlights: 1) The implementation of the new commission structure is almost completed. The agency channel has higher commission cost as compared to other channels. 2) Persistency ratio has improved for the company across cohorts as the products typically have longer holding period as compared to the peers. 3) Annuity products margins are better as compared to the average margin and saw traction in tier 2/3 cities. 4) The mortality adjustment in the EV comes from group credit life products. It is over a period of time and not just from FY24. 5) The operating expenses adjustment in the EV walk is mainly due to change in commission structure. 6) The management said that re-designing of the commission structure is almost done and the commission cost will see moderation in FY25. 7) New Business Premium from credit life business was Rs 602cr during the year. 8) ICICI Bank's contribution in the overall APE mix was in the range of 12-15% in FY24.

Policyholders account - consolidated

Particulars, Rs cr	Q4FY24	Q4FY23	Y-o-Y (%)	Q3FY24	Q-o-Q (%)
First year premium	2,946	2,633	11.9	1,533	92.1
Renewal premium	8,428	7,230	16.6	6,080	38.6
Single premium	3,776	3,129	20.7	2,672	41.3
Total premium	15,150	12,992	16.6	10,285	47.3
Net premium income	14,788	12,629	17.1	9,929	48.9
Income from investments	7,265	-1,905	-	16,315	-55.5
Other income	55	44	25.8	53	2.9
Transfer of funds from shareholders ac	483	732	-34.1	350	37.8
Total	22,591	11,500	96.5	26,648	-15.2
Commission					
First year premium	617	531	16.2	336	83.3
Renewal premium	166	140	18.5	112	48.2
Single premium	489	41	1,092.9	373	31.2
Total commission	1,272	712	78.7	822	54.8
Net commission	1,566	754	107.8	1,002	56.3
Expenses of management	2,550	2,320	9.9	1,880	35.6
Other expenses	-	47	-	168	-
Provision for taxes	36	47	-22.9	34	6.7
Benefits paid	12,516	8,761	42.9	10,080	24.2
Change in actuarial liability	7,157	-693	-	14,104	-
Total	22,386	10,641	110.4	26,266	-14.8
Surplus/(deficit)	206	859	-76.0	382	-46.1

Source : RBL Research

Shareholders account - consolidated

Particulars, Rs cr	Q4FY24	Q4FY23	Y-o-Y (%)	Q3FY24	Q-o-Q (%)
Transfer from policyholders account	318	822	-61.3	410	-22.4
Investment income	428	260	64.6	186	130.5
Other income	6	4	39.7	16	-64.5
Expenses other than insurance business	35	33	5.7	30	15.1
Transfer of funds to policyholders ac	483	732	-34.1	350	37.8
Profit/(loss) before tax	234	317	-26.2	231	1.2
Provision for taxes	60	82	-26.2	4	-
PAT	174	235	-26.2	227	-23.5

Source : RBL Research

Net premium income increased by 48.9% QoQ/17.1% YoY

Net commission increased by 56.3% QoQ/107.8% YoY

Surplus/(deficit) during the quarter declined by 46.1% QoQ/76.1% YoY

Investment income saw strong growth of 131% QoQ/65% YoY

PAT during the quarter declined by 23.5% QoQ/26.2% YoY

Annuity products reported strong growth during the quarter

APE increased by 89.5% QoQ/9.6% YoY

Bancassurance contribution in the APE mix increased by 303bps QoQ/229bps YoY

Improvement in persistency in both 13th and 61st month cohorts

VNB margin during the quarter declined by 140bps QoQ/1052bps YoY

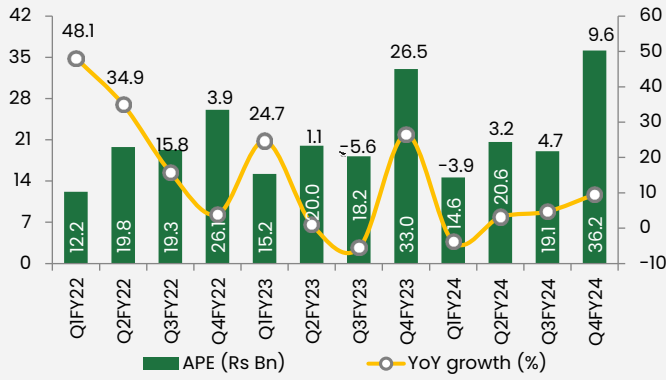
Business parameters - consolidated

Particulars, Rs cr	Q4FY24	Q4FY23	Y-o-Y (%)	Q3FY24	Q-o-Q (%)
APE Mix (Rs Cr)					
Linked	1,572	888	77.0	846	85.8
Non-linked	880	1,695	-48.1	522	68.6
Annuity	614	170	261.2	122	403.3
Group funds	117	92	27.2	60	95.0
Savings	3,183	2,846	11.8	1,550	105.4
Protection	433	454	-4.6	358	20.9
Total APE	3,616	3,300	9.6	1,908	89.5
APE Mix (%)					
Unit Linked	43.5	26.9	1656bps	44.3	-87bps
Non-linked	24.3	51.4	-2703bps	27.4	-302bps
Annuity	17.0	5.2	1183bps	6.4	1059bps
Group funds	3.2	2.8	45bps	3.1	9bps
Savings	88.0	86.2	178bps	81.2	679bps
Protection	12.0	13.8	-178bps	18.8	-679bps
Distribution Mix (Rs Cr)					
Bancassurance	1,079	910	18.6	512	110.7
Agency	1,160	904	28.3	578	100.7
Direct	473	388	21.9	295	60.3
Partnership distribution	488	657	-25.7	210	132.4
Group	413	441	-6.3	313	31.9
Total APE	3,613	3,300	9.5	1,908	89.4
Distribution Mix (%)					
Bancassurance	29.9	27.6	229bps	26.8	303bps
Agency	32.1	27.4	471bps	30.3	181bps
Direct	13.1	11.8	133bps	15.5	-237bps
Partnership distribution	13.5	19.9	-640bps	11.0	250bps
Group	11.4	13.4	-193bps	16.4	-497bps
Persistency ratio (%)					
13th month	88.3	81.7	660bps	85.2	310bps
61st month	63.6	62.9	70bps	63.5	10bps
Solvency Ratio (%)	191.8	208.9	-1710bps	196.5	-470bps
Annual premium equivalent	3,616	3,300	9.6	1,907	89.6
New business premium	6,554	5,635	16.3	4,117	59.2
Value of new business	776	1,055	-26.4	436	78.0
VNB margin (%)	21.5	32.0	-1052bps	22.9	-140bps

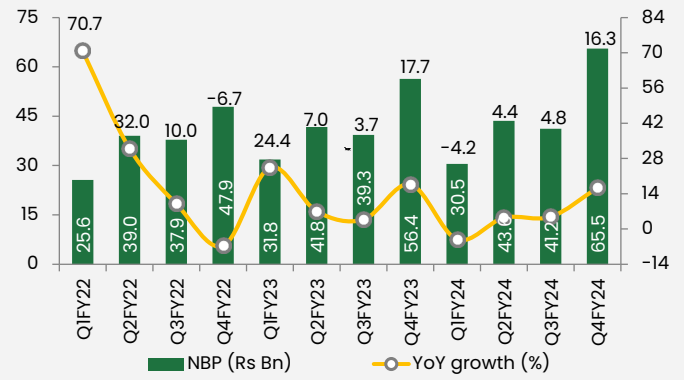
Source : RBL Research

Story in charts

APE reported healthy growth of 9.6% YoY

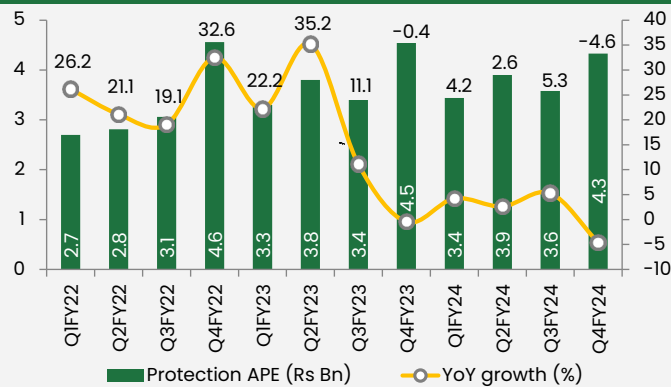


New Business Premium increased by 16.3% YoY

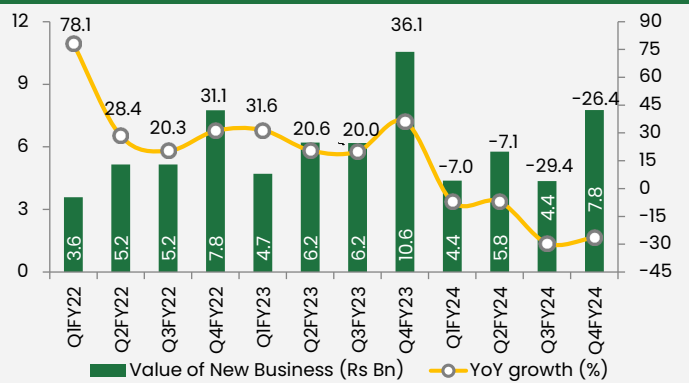


Source : RBL Research

Protection APE declined by 4.6% YoY

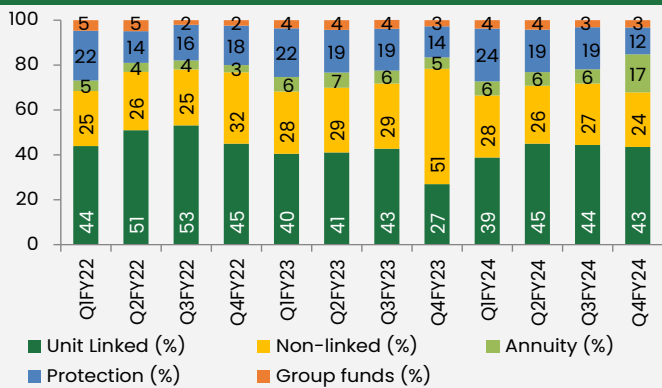


VNB reported decline of 26.4% YoY

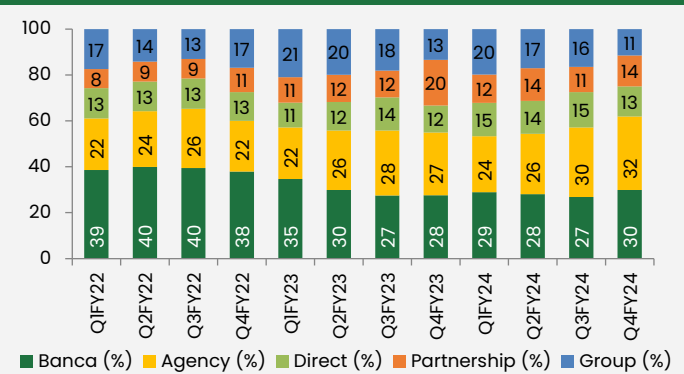


Source : RBL Research

Increased share of annuity products in the APE mix

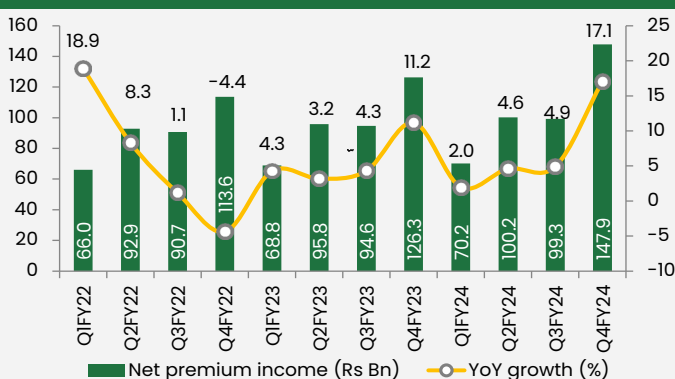


Share of Banca increased to 30% in the channel mix

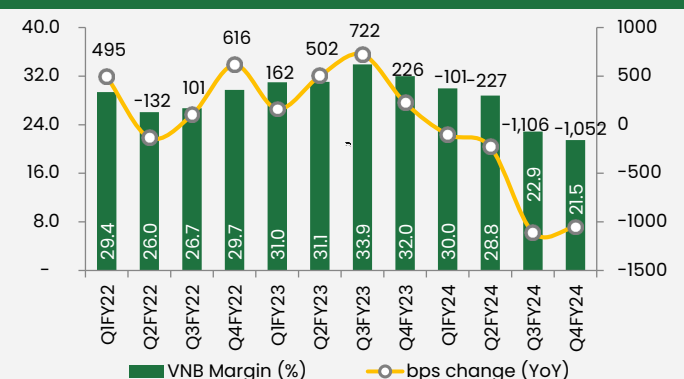


Source : RBL Research

Net premium income increased by 17.1% YoY



VNB margin continued to decline during the quarter



Source : RBL Research

Technical account- consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Gross premiums	39,933	43,236	47,301	50,934
Net premiums	38,560	41,760	45,674	49,183
Investment income	10,116	46,755	9,073	10,332
Contribution from the Shareholders account	1,802	1,793	2,382	2,811
Total Income	50,478	90,307	57,130	62,325
Commissions	1,864	3,722	3,922	4,628
Operating expenses	5,307	4,743	6,196	6,791
Benefits paid	30,789	40,006	37,536	43,515
Change in valuation of life reserves	9,817	40,639	8,063	6,116
Total Benefits	40,606	80,645	45,599	49,631
Tax	1,384	1,278	76	69
Surplus/(Deficit) after tax	1,102	-81	1,488	1,343

Source : RBL Research

Shareholders account - consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Transfer from policyholder's a/c	2,016	1,472	2,212	2,256
Investment income	880	1,372	773	881
Other income	14	28	16	18
Total income	2,910	2,872	3,379	3,585
Operating expenses	115	122	118	117
Contribution to the policyholders a/c	1,802	1,793	1,975	2,019
Profit before tax	900	922	1,286	1,449
Tax	87	70	66	47
Profit after tax	814	851	1,352	1,496

Source : RBL Research

EV movement - consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Opening EV	31,630	35,639	41,989	49,660
Value of New Business (VNB)	2,765	2,227	2,567	3,058
Unwind	2,708	3,071	3,653	4,370
Operating assumption changes	-161	70	82	98
EVOP	5,488	5,017	6,302	7,526
Economic assumption change	-1,449	1,691	1,992	2,356
Net capital injection	-30	-6	-624	-855
Embedded value (EV)	35,639	41,989	49,660	58,687
Return on embedded value (ROEV)	17.4	14.1	15.0	15.2

Source : RBL Research

Balance Sheet - consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Share capital	1,439	1,441	1,439	1,439
Reserves and surplus	8,371	9,218	10,686	12,274
Fair value change account	280	345	358	411
Shareholder's equity	10,090	11,005	12,482	14,124
Borrowings	1,200	1,200	1,200	1,200
Fair value change account	2,833	5,027	2,968	3,026
Policy liabilities	234,365	275,004	252,669	259,320
Funds for future appropriations	1,669	1,287	1,798	1,845
Total liabilities	240,067	282,518	258,635	265,391
Total liabilities and shareholders equity	250,157	293,523	271,117	279,515
Shareholders investments	9,847	10,567	11,789	12,143
Policyholders investments	94,311	114,318	106,766	112,104
Unit linked investments	144,058	164,842	150,916	153,890
Loans	1,314	1,761	1,721	1,911
Fixed assets	596	719	604	609
Net current assets/(liabilities)	30	1,314	-680	-1,380
Total assets	250,157	293,523	271,117	279,515

Source : RBL Research

Key Ratios - consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
VNB	2,765	2,227	2,567	3,058
VNB growth (%)	32.0	24.6	27.2	28.1
VNB margin (%)	32.0	24.6	27.2	28.1
APE	8,640	9,046	9,444	10,865
APE growth (%)	11.7	4.7	4.4	15.0
NBP	16,922	18,081	20,266	22,080
NBP growth (%)	12.5	6.8	12.1	8.9

Source : RBL Research

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

.....

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

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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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