

HOLD
 TP: Rs 706 | ▲ 11%

ICICI PRUDENTIAL LIFE | Insurance

22 January 2025

Strong growth but VNB margin dwindles

- APE grew 28% YoY in Q3 (27% YoY in 9M); RWRP APE rose 18% YoY above the industry growth is a key positive
- VNB margin contracted 220bps QoQ (166bps YoY) in 3Q, we expect margin to remain stable going ahead
- Maintain HOLD and raise TP to Rs 706, 1.8x its Dec'26 P/EV, on stable performance going ahead

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APE growth strong: IPRU's APE grew 28% YoY to Rs 24.4bn at end-Q3FY25 and 27% YoY in 9MFY25. Linked APE rose 42% YoY to Rs 12bn, owing to buoyant equity markets while non-linked APE de-grew 24% YoY to Rs 3.96bn in Q3FY25. Annuity and group funds saw robust growth of 50% YoY and 348% YoY. Protection APE grew 9% YoY to Rs 3.9bn in Q3FY25. Gross premium increased 23% YoY to Rs 126.6bn. Retail weighted received premium was at Rs 55.4bn, up 18% YoY in 9MFY25 vs. industry growth of 13% YoY. We expect APE to grow at a CAGR of 17% in FY24-FY27E.

Low VNB margin norm to stay: IPRU's VNB margin contracted 220bps QoQ and 166bps YoY to 21.5% in Q3FY25. This was largely on account of product mix change towards low yielding products like ULIPs. Protection share declined to 17% vs. 20% in 9MFY24 with retail protection share stable at 6% in 9MFY25. We expect VNB margins to be in the range of 24-25% in FY25E-FY27E. The company continues to focus on the Annuity and Retail protection segments. Management indicated that the non-par plans have been repriced in line with the yields in Oct'24.

Bancassurance grows: APE from bancassurance grew strong at 19% YoY in Q3FY25 to Rs 6.1bn, accounting for 28% in the mix. Both agency and direct channel increased 26% YoY and 23% YoY, constituting 30% and 15% of the distribution mix respectively. The company continues to focus on its proprietary channels – agency and direct channels.

Assume coverage on IPRU with HOLD: Strong APE growth continues for the company with diversified product mix and minimum impact of surrender value regulations. We remain positive on aggressive growth, market share increase and continued increase in the share of group business but would remain watchful on the low VNB margins and higher expenses. Going forward, the ability of the company to sustain the strong premium growth momentum and maintain VNB margin would be a key driver for the stock's re-rating. Hence, we assume coverage on IPRU with a HOLD rating with a TP of Rs 706 (previously Rs 650), implying 1.8x its Dec'26 P/EV.

Key changes

| Target | Rating |
|--------|--------|
| ▲ | ◀ ▶ |

| | |
|------------------|----------------|
| Ticker/Price | IPRU IN/Rs 636 |
| Market cap | US\$ 10.5bn |
| Free float | 27% |
| 3M ADV | US\$ 8.5mn |
| 52wk high/low | Rs 797/Rs 475 |
| Promoter/FPI/DII | 73%/15%/12% |

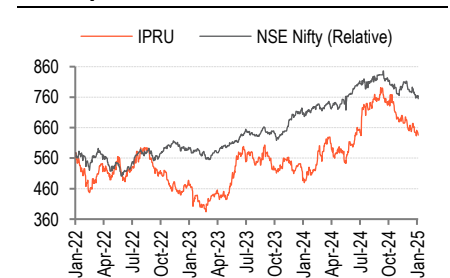
Source: NSE | Price as of 21 Jan 2025

Key financials

| Y/E 31 Mar | FY24A | FY25E | FY26E |
|------------------------|----------|----------|----------|
| NBP (Rs mn) | 1,86,788 | 2,15,179 | 2,43,153 |
| APE (Rs mn) | 90,460 | 1,08,552 | 1,27,549 |
| VNB (Rs mn) | 22,253 | 25,835 | 31,249 |
| Embedded Value (Rs mn) | 4,23,358 | 4,83,465 | 5,53,975 |
| VNB margin (%) | 24.6 | 23.8 | 24.5 |
| EVPS (Rs) | 294.3 | 336.1 | 385.4 |
| EPS (Rs) | 5.9 | 5.1 | 6.6 |
| Consensus EPS (Rs) | 5.9 | 8.0 | 10.0 |
| P/EV (x) | 2.2 | 1.9 | 1.6 |

Source: Company, Bloomberg, BOBCAPS Research

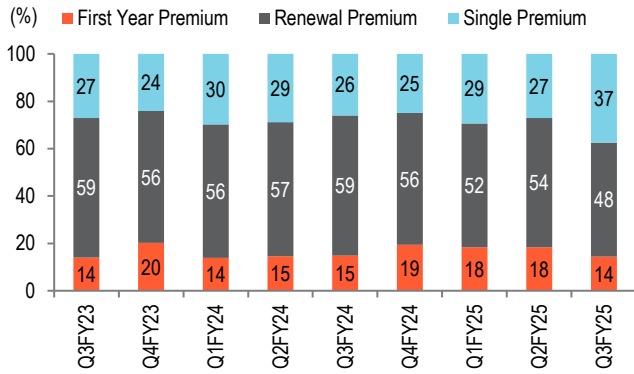
Stock performance



Source: NSE

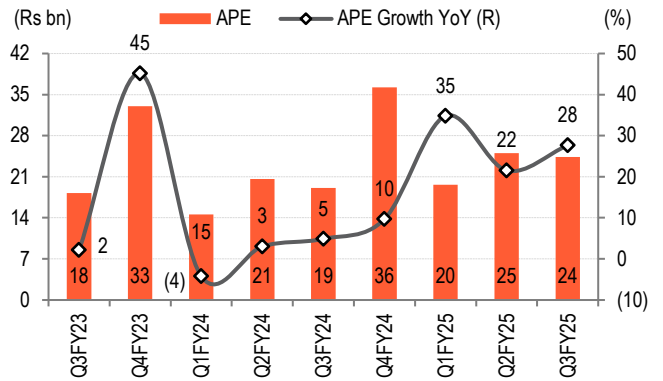


Fig 1 – Single premium contributing 37% of the gross premium mix in Q3FY25



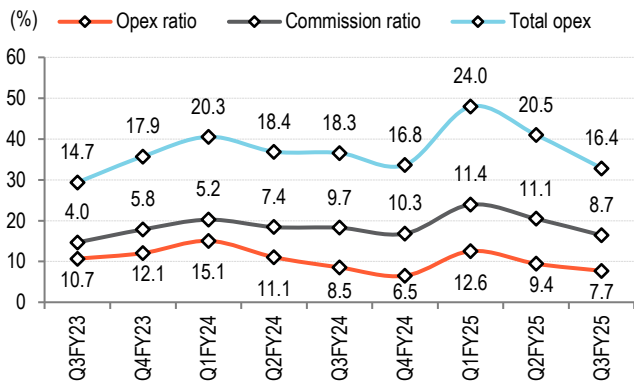
Source: Company, BOBCAPS Research

Fig 2 – APE grew at 27.8% YoY



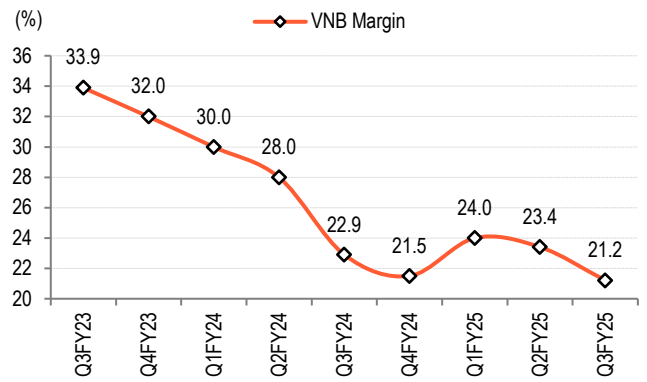
Source: Company, BOBCAPS Research

Fig 3 – Total expense ratio moderated in Q3FY25



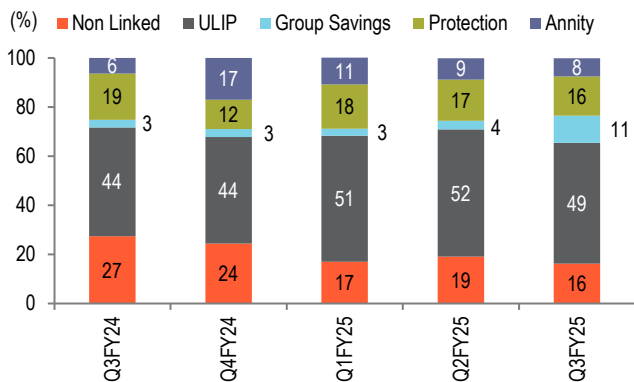
Source: Company, BOBCAPS Research

Fig 4 – VNB margin contracts in Q3



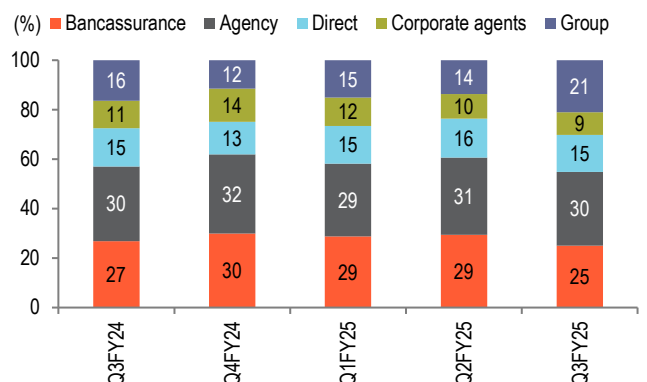
Source: Company, BOBCAPS Research

Fig 5 – Share of ULIP in the product mix stood 51% in 9MFY25



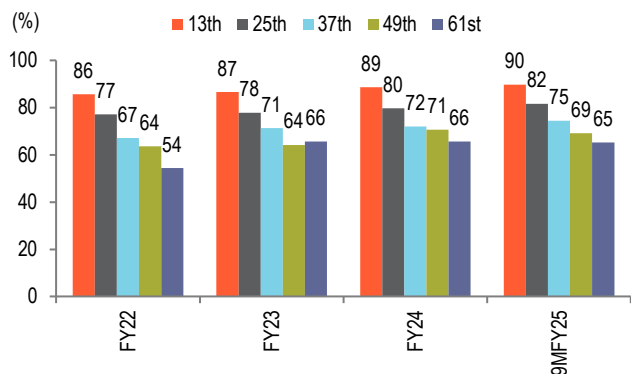
Source: Company, BOBCAPS Research

Fig 6 – Agency and direct together delivered 38% YoY APE growth



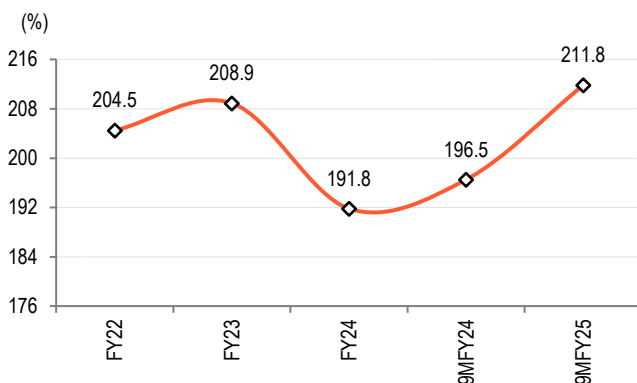
Source: Company, BOBCAPS Research

Fig 7 – Persistency continues to hold strong



Source: Company, BOBCAPS Research

Fig 8 – Adequate solvency maintained as on date



Source: Company, BOBCAPS Research

Fig 9 – Policyholders’ account

| (Rs mn) | Q3FY25 | Q3FY24 | YoY (%) | Q2FY25 | QoQ (%) |
|--|-----------------|-----------------|---------------|-----------------|---------------|
| Gross premium income | 1,26,601 | 1,02,850 | 23.1 | 1,11,752 | 13.3 |
| First Year Premium | 18,246 | 15,334 | 19.0 | 20,587 | (11.4) |
| Renewal Premium | 60,900 | 60,796 | 0.2 | 60,858 | 0.1 |
| Single Premium | 47,455 | 26,719 | 77.6 | 30,307 | 56.6 |
| Reinsurance | 3,988 | 3,562 | 11.9 | 4,210 | (5.3) |
| Net premium income | 1,22,614 | 99,288 | 23.5 | 1,07,542 | 14.0 |
| Income from investments (Net) | (79,059) | 1,63,152 | (148.5) | 1,42,770 | (155.4) |
| Other income | 600 | 534 | 12.5 | 562 | 6.7 |
| Contribution of funds from Shareholders’ A/c | 1,010 | 3,505 | (71.2) | (799) | (226.4) |
| Total | 45,165 | 2,66,478 | (83.1) | 2,50,075 | (81.9) |
| Commission on | | | | | |
| First Year Premium | 18,246 | 15,334 | 19.0 | 20,587 | (11.4) |
| Renewal Premium | 60,900 | 60,796 | 0.2 | 60,858 | 0.1 |
| Single Premium | 47,455 | 26,719 | 77.6 | 30,307 | 56.6 |
| Rewards | 1,647 | 1,800 | (8.5) | 2,051 | (19.7) |
| Net Commission | 11,037 | 10,017 | 10.2 | 12,349 | (10.6) |
| Expenses of Management | 20,781 | 18,803 | 10.5 | 22,899 | (9.2) |
| Benefits Paid (Net) | 1,23,110 | 1,00,797 | 22.1 | 1,20,218 | 2.4 |
| Change in actuarial liability | (1,05,013) | 1,41,037 | (174.5) | 1,04,217 | (200.8) |
| Surplus/Deficit | 4,190 | 3,818 | 9.7 | 927 | 351.8 |

Source: Company, BOBCAPS Research

Fig 10 – Shareholders’ account

| (Rs mn) | Q3FY25 | Q3FY24 | YoY (%) | Q2FY25 | QoQ (%) |
|---|--------------|--------------|-------------|--------------|-------------|
| Transfer from Policyholders’ Account | 3,260 | 4,098 | (20.5) | 1,018 | 220.1 |
| Total income under Shareholders’ Account | | | | | |
| Investment Income | 1,802 | 1,846 | (2.4) | 1,262 | 42.8 |
| Other income | 600 | 534 | 12.5 | 562 | 6.7 |
| Expenses other than those related to insurance business | 296 | 237 | 24.9 | 220 | 34.6 |
| Transfer of funds to Policyholders’ Account | 1,010 | 3,505 | (71.2) | (799) | (226.4) |
| Profit before tax | 3,758 | 2,321 | 61.9 | 2,862 | 31.3 |
| Provisions for tax | 502 | 46 | 983.6 | 345 | 45.4 |
| Profit after tax and before extraordinary items | 3,257 | 2,275 | 43.2 | 2,517 | 29.4 |

Source: Company, BOBCAPS Research

Fig 11 – Balance sheet

| (Rs mn) | Q3FY25 | Q3FY24 | YoY (%) | Q2FY25 | QoQ (%) |
|--|------------------|------------------|------------------|------------------|----------------|
| Sources of funds | | | | | |
| Share Capital | 14,452 | 14,401 | 0.4 | 14,444 | 0.1 |
| Share application money received pending allotment of shares | 0 | 0 | - | 6 | (100.0) |
| Reserves and Surplus | 1,01,569 | 90,228 | 12.6 | 97,875 | 3.8 |
| Credit / (Debit) Fair Value Change Account | 448 | 6,122 | (92.7) | 3,478 | (87.1) |
| Total Equity | 1,16,469 | 1,10,751 | 5.2 | 1,15,802 | 0.6 |
| Policyholders' Funds | | | | | |
| 28,70,994 | 26,44,017 | 8.6 | 29,90,176 | (4.0) | |
| Borrowing | 26,000 | 12,000 | 116.7 | 12,000 | 116.7 |
| Policy Liabilities | 28,23,206 | 26,00,836 | 8.5 | 29,25,259 | (3.5) |
| - Insurance Reserves | 12,13,584 | 10,34,967 | 17.3 | 11,77,414 | 3.1 |
| - Provision for Linked Liabilities | 16,09,622 | 15,65,869 | 2.8 | 17,47,845 | (7.9) |
| Add: Fair value change | 47,787 | 43,181 | 10.7 | 64,916 | (26.4) |
| FFA | 13,656 | 13,985 | (2.4) | 12,726 | 7.3 |
| FFA - provision of lapsed policies | 60,933 | 77,642 | (21.5) | 63,893 | (4.6) |
| Total Sources of funds | 30,88,052 | 28,58,395 | 8.0 | 31,94,596 | (3.3) |
| Application of Funds | | | | | |
| Investments | 13,89,445 | 11,86,824 | 17.1 | 13,36,929 | 3.9 |
| - Shareholders' | 1,39,669 | 1,05,741 | 32.1 | 93,790 | 48.9 |
| - Policyholders' | 12,49,777 | 10,81,083 | 15.6 | 12,43,138 | 0.5 |
| Assets held to cover Linked Liabilities | 16,70,555 | 16,43,511 | 1.6 | 18,11,738 | (7.8) |
| Loans | 22,281 | 16,237 | 37.2 | 20,488 | 8.7 |
| Fixed Assets | 8,115 | 7,043 | 15.2 | 7,603 | 6.7 |
| Net Current Assets | (2,344) | 4,779 | (149.0) | 17,839 | (113.1) |
| Total application of funds | 30,88,052 | 28,58,395 | 8.0 | 31,94,596 | (3.3) |

Source: Company, BOBCAPS Research

Earnings call highlights

VNB and margin

- IPRU's VNB margin contracted to 21.2% vs. 23.4% in Q2FY25 vs. 22.9% in Q3FY24. This was primarily on account of a change in product mix towards ULIP and group funds which forms ~60% of APE and higher expense ratios owing to other expenses. For 9MFY25, VNB margin was at 22.8%.
- Management indicated that it reviews assumptions at the end of the financial year.
- VNB grew 19% YoY to Rs 5.2bn in Q3FY25 and was up 7% YoY in 9MFY25 to Rs 15.8bn. Management reiterated its focus on growing the absolute VNB and VNB margins would be the outcome of the product mix.
- Margin expansion for the group business is not the company's primary focus but it contributes to its profits.
- IPRU's overall margins segment wise remain the same as the previous quarter.

Product mix

- Credit life increased 8% YoY and constituted 38% of the overall protection business. Within credit life, MFI forms 45% of the credit life mix while the remaining is non-MFI.
- Group business, which formed 11% of the product mix in Q3FY25 and 6% in 9MFY25, faces stiff competition.
- During the quarter, the company launched Women's Health Plan, ICICI Pru Wish and an increasing annuity variant of GPP Flexi.

Higher cost ratios

- Higher commissions pushed up cost ratios. The expense ratio continued to trend upwards at 19.8% YoY vs. 18.9% YoY in 9MFY24. However, it was lower at 16.4% in Q3FY25 vs. 18.3% in Q3FY24.

Others

- During the quarter, the company raised subordinated debt of Rs 14bn which strengthened its solvency ratio to 211.8% as at Dec'24.
- It also proposed an investment of Rs 100mn in Bima Sugam, a centralised market place for insurance products and services.

Valuation methodology

Strong APE growth continues for the company with diversified product mix and minimum impact of surrender value regulations. We remain positive on aggressive growth, market share increase and continued increase in the share of group business but would remain watchful on the low VNB margins and higher expenses. Going forward, the ability of the company to sustain the strong premium growth momentum and maintain VNB margin would be a key driver for the stock re-rating. Hence, we assume coverage on IPRU with a HOLD rating with a TP of Rs 706 (previously Rs 650), implying 1.8x its Dec'26 P/EV.

Key risks

Key downside risks to our estimates are:

- **Changes in regulatory framework:** Any unfavourable change in regulations can impact business growth. For example, currently ULIP proceeds are taxed when the yearly premium exceeds Rs 0.25mn. Similarly, any change in the income tax rate of insurance companies can adversely impact profitability.
- **Losses from capital and bond markets:** Prolonged weakness in capital markets could hamper the growth of ULIPs. Although insurance companies are aiming for a balanced product mix, many of them have sizeable business coming from ULIPs. For IPRU, the sensitivity of a decline in equity on EV is comparatively higher than for private peers.
- **Adverse economic events:** A significant economic decline may result in financial difficulties or defaults by issuers of bonds in the company's investment portfolios. Shareholders' equity and earnings and policyholders' funds may be affected by fair value revaluation of bonds held in the investment portfolios.

Glossary

| Glossary of Abbreviations | | | |
|---------------------------|--|-------------|----------------------------------|
| APE | Annual Premium Equivalent | KYC | Know Your Customer |
| EOM | Expenses of Management | NBP | New Business Premium |
| EV | Embedded Value | ROEV | Return on Embedded Value |
| EVOP | Embedded Value Operating Profit | RWRP | Retail Weighted Received Premium |
| HNI | High Net Worth Individuals | ULIP | Unit Linked Insurance Plan |
| IRDAI | Insurance Regulatory and Development Authority | VNB | Value of New Business |

Source: BOBCAPS Research

Financials

Revenue Account (Technical)

| Y/E 31 Mar (Rs mn) | FY23A | FY24A | FY25E | FY26E | FY27E |
|-----------------------------|-----------------|-----------------|------------------|------------------|------------------|
| Gross premium income | 3,99,328 | 4,32,356 | 4,98,074 | 5,62,824 | 6,52,875 |
| First year premium | 64,938 | 70,315 | 81,003 | 91,534 | 1,06,179 |
| Renewal premium | 2,25,203 | 2,45,568 | 2,82,895 | 3,19,671 | 3,70,818 |
| Single premium | 1,09,187 | 1,16,472 | 1,34,176 | 1,51,619 | 1,75,878 |
| Net written premium | 3,85,595 | 4,17,596 | 4,81,140 | 5,43,688 | 6,30,678 |
| Income from investments | 99,646 | 4,65,504 | 5,42,549 | 4,35,644 | 4,66,176 |
| Other Income | 19,540 | 19,973 | 21,449 | 22,522 | 23,714 |
| Total income | 5,04,781 | 9,03,073 | 10,45,138 | 10,01,854 | 11,20,567 |
| Commissions | 18,639 | 37,220 | 49,309 | 57,408 | 67,246 |
| Operating expenses | 46,458 | 40,830 | 49,807 | 56,282 | 67,246 |
| Benefits and bonuses paid | 3,10,042 | 4,00,060 | 4,45,509 | 3,51,107 | 3,81,868 |
| Change in liabilities (net) | 98,170 | 4,06,390 | 4,77,509 | 5,10,934 | 5,72,247 |
| Others | 0 | 0 | 0 | 0 | 0 |
| Total expenses | 4,73,309 | 8,84,500 | 10,22,135 | 9,75,732 | 10,88,607 |
| Surplus before tax | 31,473 | 18,573 | 23,003 | 26,122 | 31,960 |
| Provision for tax | 8,451 | 7,681 | 8,514 | 8,882 | 9,861 |
| Surplus after tax | 23,021 | 10,892 | 14,489 | 17,240 | 22,100 |
| Trf to shareholders' a/c | 20,162 | 14,719 | 14,054 | 16,378 | 20,995 |
| Balance being FFA | 2,860 | (3,827) | 435 | 862 | 1,105 |

Income Statement (Non-technical)

| Y/E 31 Mar (Rs mn) | FY23A | FY24A | FY25E | FY26E | FY27E |
|-------------------------------|--------------|--------------|--------------|---------------|---------------|
| Trf from policyholders' a/c | 20,162 | 14,719 | 14,054 | 16,378 | 20,995 |
| Income from investments | 8,761 | 13,692 | 14,814 | 15,794 | 18,242 |
| Contr. to policyholders' fund | 18,024 | 17,926 | 19,361 | 20,329 | 21,345 |
| Others | (1,009) | (894) | (919) | (946) | (973) |
| PBT | 9,890 | 9,591 | 8,587 | 10,897 | 16,918 |
| Provision for taxation | 862 | 708 | 823 | 1,054 | 1,656 |
| PAT | 9,027 | 8,883 | 7,764 | 9,843 | 15,262 |
| Dividend+Interim div.+DDT | 864 | 867 | 867 | 867 | 868 |

Balance Sheet

| Y/E 31 Mar (Rs mn) | FY23A | FY24A | FY25E | FY26E | FY27E |
|------------------------------|------------------|------------------|------------------|------------------|------------------|
| Equity | 1,00,918 | 1,10,086 | 1,13,168 | 1,22,652 | 1,37,555 |
| Policyholders' funds | 22,83,724 | 27,31,066 | 32,34,355 | 38,32,755 | 45,02,700 |
| FFA | 16,693 | 12,866 | 15,246 | 18,066 | 22,131 |
| Others | 1,57,138 | 1,35,980 | 1,66,975 | 1,92,036 | 2,22,679 |
| Total liabilities | 25,58,472 | 29,89,998 | 35,29,744 | 41,65,510 | 48,85,066 |
| Shareholders' funds | 98,514 | 1,05,755 | 1,22,147 | 1,41,080 | 1,62,947 |
| Policyholders' funds | 9,43,110 | 11,43,182 | 13,86,955 | 17,54,584 | 21,96,464 |
| Assets to cover linked liab. | 14,40,581 | 16,48,424 | 18,87,445 | 21,61,125 | 24,96,099 |
| Others | 76,268 | 92,637 | 1,33,196 | 1,08,721 | 29,556 |
| Total assets | 25,58,472 | 29,89,998 | 35,29,744 | 41,65,510 | 48,85,066 |

Key Metrics

| Y/E 31 Mar | FY23A | FY24A | FY25E | FY26E | FY27E |
|------------------------|-----------|-----------|-----------|-----------|-----------|
| AUM (Rs mn) | 24,82,204 | 28,97,361 | 33,96,548 | 40,56,789 | 48,55,510 |
| NBP (Rs mn) | 1,74,125 | 1,86,788 | 2,15,179 | 2,43,153 | 2,82,057 |
| APE (Rs mn) | 86,400 | 90,460 | 1,08,552 | 1,27,549 | 1,46,681 |
| VNB (Rs mn) | 27,648 | 22,253 | 25,835 | 31,249 | 36,524 |
| VNB margin (%) | 32.0 | 24.6 | 23.8 | 24.5 | 24.9 |
| Embedded value (Rs mn) | 3,56,338 | 4,23,358 | 4,83,465 | 5,53,975 | 6,35,611 |
| ROEV (%) | 17.4 | 14.1 | 14.4 | 14.8 | 14.9 |
| ROE (%) | 8.4 | 8.1 | 6.6 | 8.0 | 11.5 |
| Opex ratio (%) | 11.5 | 9.5 | 10.0 | 10.0 | 10.3 |
| Cost ratio (%) | 16.1 | 18.2 | 19.9 | 20.2 | 20.6 |
| Solvency ratio (%) | 208.9 | 191.8 | 179.3 | 184.1 | 179.0 |
| EPS (Rs) | 5.6 | 5.9 | 5.1 | 6.6 | 10.3 |
| BVPS (Rs) | 70.2 | 76.5 | 78.7 | 85.3 | 0.0 |
| EVPS (Rs) | 248.0 | 294.3 | 336.1 | 385.4 | 442.2 |

Source: Company, BOBCAPS Research

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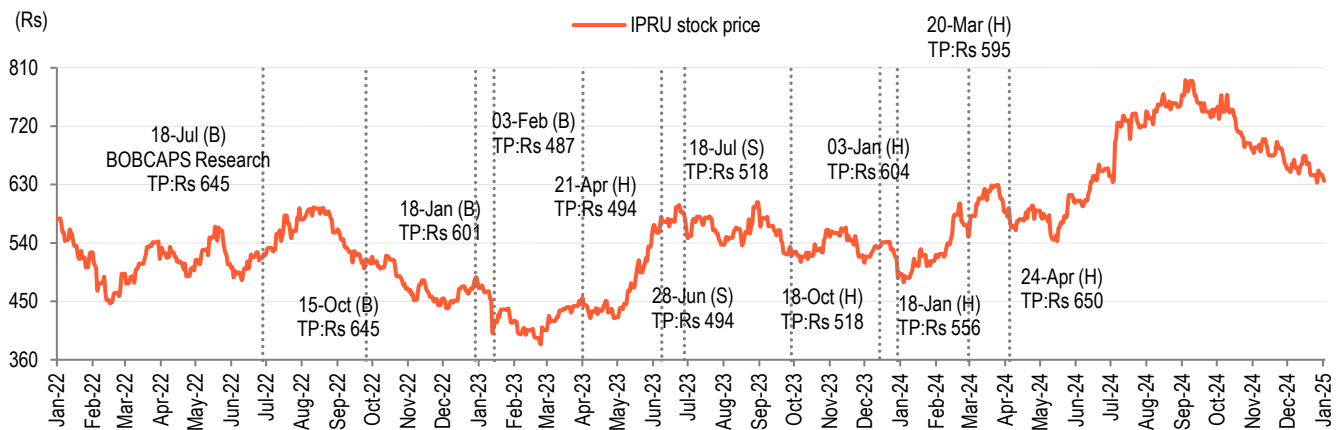
Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%
HOLD – Expected return from -6% to +15%
SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): ICICI PRUDENTIAL LIFE (IPRU IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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