

BUY

TP: Rs 736 | ▲ 23%

ICICI PRUDENTIAL LIFE

| Insurance

| 15 October 2025

VNB margin expands, focus remains on growing absolute VNB

- VNB margin expands by 103bps YoY in Q2FY26, aided by favourable product mix and cost rationalization
- The company reiterated that the impact of GST rate cut and the changes in ITC on EV would be ~1%
- Maintain BUY with TP of Rs 736 (earlier Rs 801), 1.6x its Sept'27 P/EV, on stable performance in future

VNB margin continues to expand: ICICI Pru Life reported VNB margin at 24.44% in Q2FY26 vs 23.41% in Q2FY25, an increase of 103bps YoY, vs 24.52% in Q1FY26. This was largely driven by favourable product mix and cost rationalisation. Share of protection in the product mix, which is the most profitable (high margin) segment increased significantly to 17.3% vs 16.8% in Q2FY25, an expansion of 49bps YoY (up 194bps YoY in H1FY26). Additionally, its share in non-linked and group grew by 300bps YoY and 330bps YoY respectively in Q2FY26. However, the margin expansion was partly offset by decline in the annuity share by ~390bps YoY. Absolute VNB was largely flat (up 1% YoY) in Q2FY26 at Rs 5,920 mn. The company reiterated its continued focus on driving absolute VNB growth.

Impact of GST rate cut: Key discussion revolved around the GST rate cut and the changes in input tax credit (ITC), along with its potential impact on the business. Following the implementation of GST rate cut on Sep 22, 2025, several questions emerged regarding its effect on EV, VNB, commission renegotiations, and possible product-level changes. The management, however, did not provide a definitive response. It reiterated that the estimated impact on EV is likely to be ~1%, which has been factored into the H1FY26 EV of Rs 505.01 bn. Since the GST rate cut was effective for only the last seven days of September, the immediate impact was limited, and IPRU continues to witness healthy policy sales. Additionally, management mentioned that discussions with distributors regarding commission payouts are ongoing. IPRU expects the full impact of GST rate cut to be reflected in the full-year EV through assumption changes.

Maintain BUY on IPRU: The company witnessed pressure on business growth owing to disallowance of ITC which the management believes is a long-term positive despite short term pressure. Some impact was therefore reflected in the VNB and EV for H1FY26, while the full impact is expected to be captured in the full-year EV. Further, with ongoing active commission renegotiations and continued cost optimisation efforts, it expects its margins to improve, aided by favourable product mix. Hence, we maintain BUY on IPRU with TP of Rs 736 (earlier Rs 801), implying 1.6x its Sept'27 P/EV.

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Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	IPRU IN/Rs 598
Market cap	US\$ 9.7bn
Free float	27%
3M ADV	US\$ 8.3mn
52wk high/low	Rs 777/Rs 526
Promoter/FPI/DII	73%/15%/12%

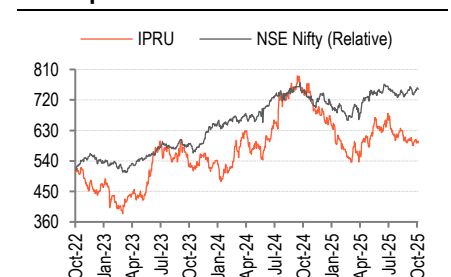
Source: NSE | Price as of 14 Oct 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NBP (Rs mn)	2,32,306	2,41,085	2,79,659
APE (Rs mn)	1,04,070	1,10,835	1,28,568
VNB (Rs mn)	23,700	26,489	31,113
Embedded Value (Rs mn)	4,79,510	5,44,447	6,19,332
VNB margin (%)	22.8	23.9	24.2
EVPS (Rs)	332.3	377.7	430.9
EPS (Rs)	8.2	11.0	13.3
Consensus EPS (Rs)	-	-	-
P/EV (x)	1.8	1.6	1.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

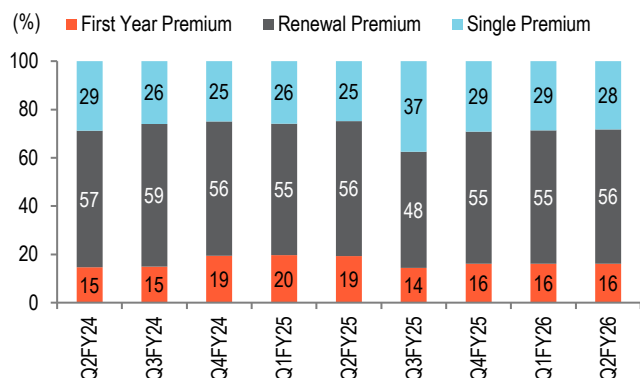


Source: NSE



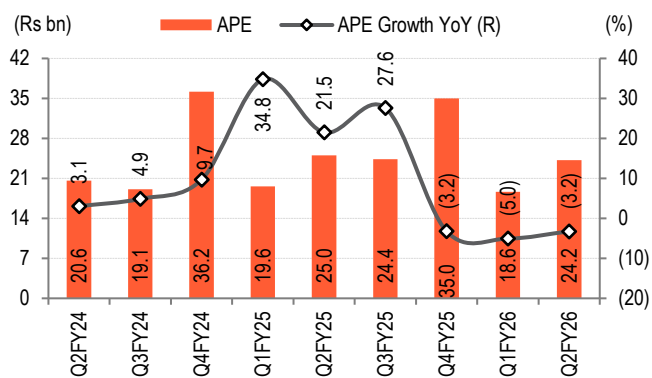
APE growth remains muted: APE de-grew 3% YoY in Q2FY26 and 4% in H1FY26 impacted a high base of 21% growth YoY in Q2FY25, 27% YoY in H1FY25 (APE de-grew 5% YoY in Q1FY26). This was largely driven by group APE which continues to grow robust at 21% YoY (up 20% YoY in H1FY26) while individual APE growth fell by 7% YoY in Q2FY26 (down 8% YoY in H1FY26). The private players reported APE growth of 14% YoY in Q2FY26.

Fig 1 – Renewal premium share remained stable at 56% in Q2FY26



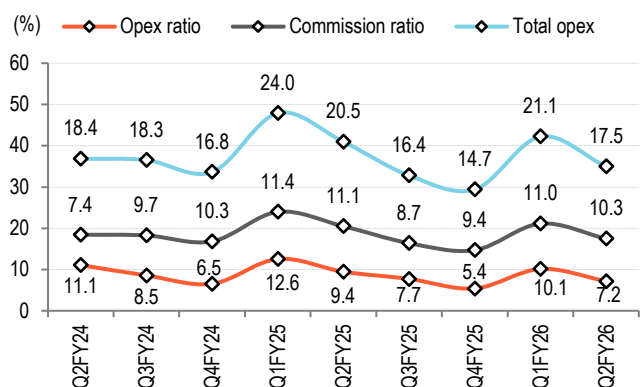
Source: Company, BOBCAPS Research

Fig 2 – APE declined 3% in Q2FY26 on a high base



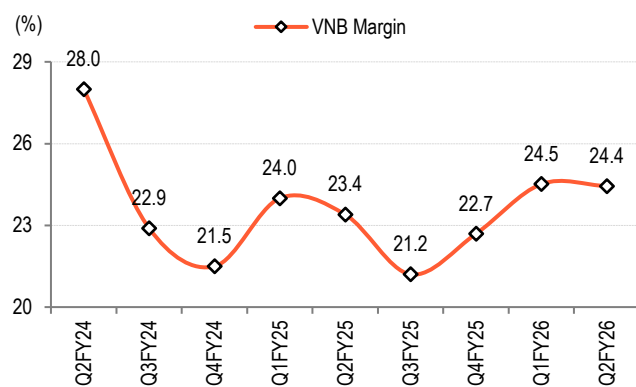
Source: Company, BOBCAPS Research

Fig 3 – Total expense ratio continued to improve driven by ongoing cost optimization initiatives



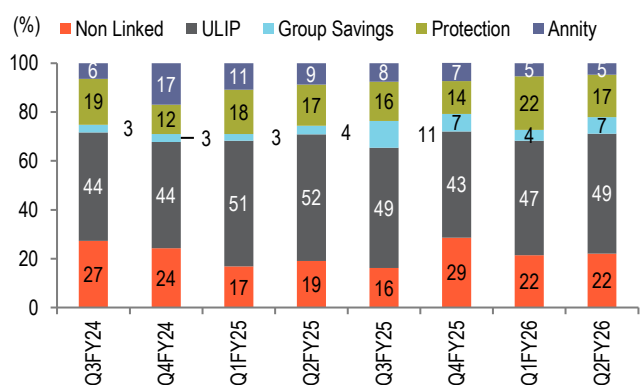
Source: Company, BOBCAPS Research

Fig 4 – Expansion in VNB margin driven by product mix shift and favourable yield curve movement



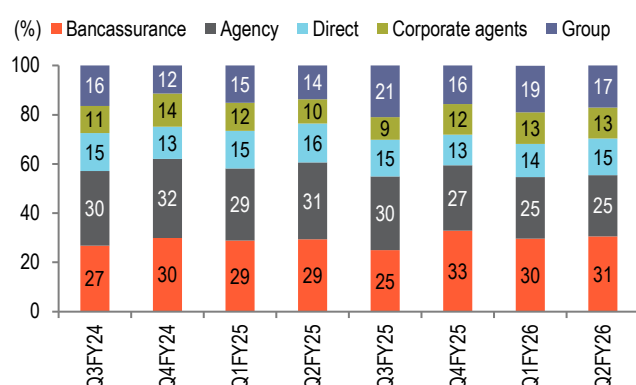
Source: Company, BOBCAPS Research

Fig 5 – ULIP share came in at 49% in Q2FY26



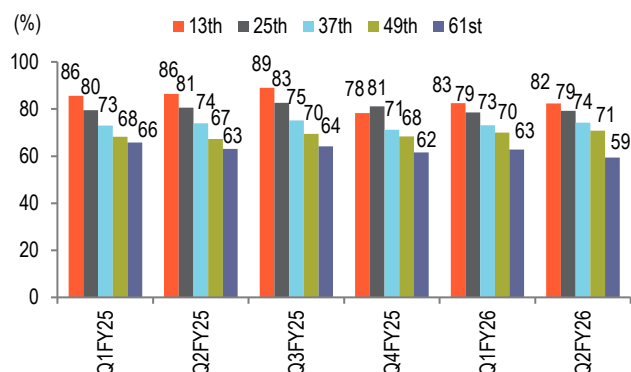
Source: Company, BOBCAPS Research

Fig 6 – ICICI Bank accounts for 15% to the total 31% contribution from banca channel



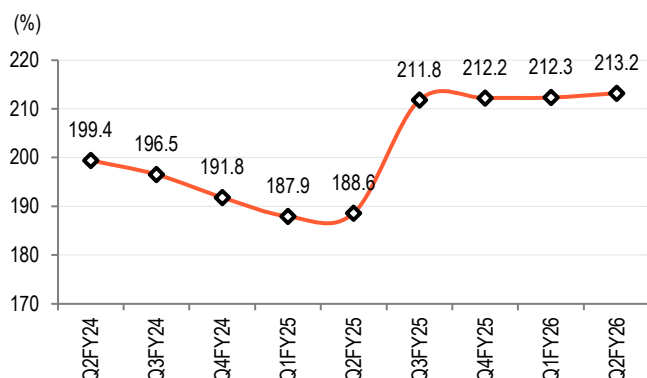
Source: Company, BOBCAPS Research

Fig 7 – 61st month persistency came in at 59%



Source: Company, BOBCAPS Research

Fig 8 – Adequate solvency maintained



Source: Company, BOBCAPS Research

Fig 9 – Policyholders' account

(Rs mn)	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)
Gross premium income	1,22,970	1,11,752	10.0	89,540	37.3
First Year Premium	19,752	21,545	(8.3)	14,454	36.7
Renewal Premium	68,518	62,445	9.7	49,417	38.7
Single Premium	34,701	27,762	25.0	25,670	35.2
Reinsurance	4,539	4,210	7.8	4,509	0.7
Net premium income	1,18,431	1,07,542	10.1	85,032	39.3
Income from investments (Net)	(2,267)	1,42,770	(101.6)	1,66,486	(101.4)
Other income	579	562	3.0	524	10.5
Contribution of funds from Shareholders' A/c	3,413	(799)	(527.0)	1,160	194.3
Total	1,20,156	2,50,075	(52.0)	2,53,202	(52.5)
Commission on					
First Year Premium	4,942	5,497	(10.1)	3,293	50.1
Renewal Premium	1,562	1,450	7.8	1,089	43.5
Single Premium	6,223	5,402	15.2	5,467	13.8
Rewards	0	0	-	0	-
Net Commission	12,727	12,349	3.1	9,849	29.2
Expenses of Management	21,520	22,899	(6.0)	18,915	13.8
Benefits Paid (Net)	1,12,767	1,20,218	(6.2)	97,620	15.5
Change in actuarial liability	(21,194)	1,04,217	(120.3)	1,30,724	(116.2)
Surplus/Deficit	4,849	927	422.9	3,762	28.9

Source: Company, BOBCAPS Research

Fig 10 – Shareholders' account

(Rs mn)	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)
Transfer from Policyholders' Account	4,203	1,018	312.7	2,706	55.3
Total income under Shareholders' Account					
Investment Income	3,183	1,262	152.2	2,484	28.1
Other income	2	2	(8.3)	2	15.8
Expenses other than those related to insurance business	506	220	129.8	533	(5.1)
Transfer of funds to Policyholders' Account	3,413	(799)	(527.0)	1,160	194.3
Profit before tax	3,470	2,862	21.2	3,448	0.6
Provisions for tax	478	345	38.4	428	11.7
Profit after tax and before extraordinary items	2,993	2,517	18.9	3,021	(0.9)

Source: Company, BOBCAPS Research

Fig 11 – Balance sheet

(Rs mn)	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)
Sources of funds					
Share Capital	14,468	14,444	0.2	14,462	0.0
Share application money received pending allotment of shares	0	6	-	1	-
Reserves and Surplus	1,11,094	97,875	13.5	1,07,794	3.1
Credit / (Debit) Fair Value Change Account	1,711	3,478	(50.8)	3,273	(47.7)
Total Equity	1,27,273	1,15,802	9.9	1,25,529	1.4
Policyholders' Funds	29,74,533	29,90,176	(0.5)	30,07,420	(1.1)
Borrowing	26,000	12,000	116.7	26,000	0.0
Policy Liabilities	29,34,455	29,25,259	0.3	29,56,594	(0.7)
- Insurance Reserves	13,39,554	11,77,414	13.8	13,00,494	3.0
- Provision for Linked Liabilities	15,94,901	17,47,845	(8.8)	16,56,100	(3.7)
Add: Fair value change	40,077	64,916	(38.3)	50,826	(21.1)
FFA	14,534	12,726	14.2	13,888	4.7
FFA - provision of lapsed policies	60,833	63,893	(4.8)	59,889	1.6
Total Sources of funds	32,03,172	31,94,596	0.3	32,32,726	(0.9)
Application of Funds					
Investments	15,02,393	13,36,929	12.4	14,78,694	1.6
- Shareholders'	1,58,341	93,790	68.8	1,55,091	2.1
- Policyholders'	13,44,052	12,43,138	8.1	13,23,603	1.5
Assets held to cover Linked Liabilities	16,55,734	18,11,738	(8.6)	17,15,989	(3.5)
Loans	27,266	20,488	33.1	25,665	6.2
Fixed Assets	8,307	7,603	9.3	8,354	(0.6)
Net Current Assets	9,471	17,839	(46.9)	4,025	135.3
Total application of funds	32,03,172	31,94,596	0.3	32,32,726	(0.9)

Source: Company, BOBCAPS Research

Earnings call highlights

Business Performance

- Gross premium increased by 10% YoY in Q2FY26, driven by strong growth in the single premium segment, which rose by 25% YoY. Renewal premium registered a growth of 10% YoY, while the first-year premium declined by 8% YoY. Net premium income also recorded a 10% YoY increase.
- PAT increased by 20% YoY to Rs 3 bn.
- Adjusted Net Worth in EV stood at Rs 127.4 bn in Sep-25 vs Rs 143.85 bn in Mar-25 and Rs 115.8 bn in Mar-24. The volatility in ANW was attributed to yield curve fluctuations, as ANW primarily consists of debt instruments.
- A strong increase in Value in Force (VIF) was driven by unwinding, new VNB additions, and positive economic variances.

Product and Channel Mix

- Linked business declined by 9% in Q2FY26 and 11% in H1FY26, owing to high base and volatile market conditions.
- Non-linked savings business grew by 12% and 16% YoY in Q2FY26 and H1FY26 respectively, driven by customer preference for guaranteed returns amid a declining interest rate environment.
- Annuity business declined by 47% and 50% in Q2FY26 and H1FY26, due to a high base, which had seen 73% growth in Q2FY25.
- Within the annuity segment, single premium annuity products continued to see demand amidst softening fixed deposit rates.
- Credit life segment continued to face headwinds due to challenges in the MFI sector. However, management anticipates a gradual recovery in the coming quarters.
- The proprietary channel witnessed an 18% YoY decline in both Q2FY26 and H1FY26 owing to a high base effect from ULIPs and annuity products sold in the corresponding quarter last year. It now contributes 39.2% of total APE and 47.7% of retail APE.
- Bancassurance contributed 31% to the overall business, of which ICICI Bank accounted for 15%, while the remaining share came from other banking partners.
- ICICI Bank's APE contribution remained stable at approximately Rs 1,000 mn per month for the quarter.

VNB margin

- VNB margin improved to 24.4% in Q2FY26 vs 23.4% in Q2FY25. This improvement was attributed to a higher mix of protection and non-participating business, favourable yield curve movements, and better product-level profitability through enhanced sum assured, longer policy tenures, increased rider

attachments. These were partially offset by the estimated impact of GST on commissions and operating expenses related to the new business.

- Focus remains on the improvement of its absolute VNB rather than margins.

Impact of GST rate cuts

- A temporary slowdown was observed following the implementation of GST rate cuts effective 22nd September 2025, as customers briefly delayed purchases.
- The company expects a 1% impact on EV due to the unavailability of Input Tax Credit (ITC), which it plans to mitigate through renegotiation of distributor commissions and expense optimization.
- The disallowance of input tax credit has the highest impact on protection and non-par products, followed by a smaller impact on ULIPs, and an even smaller impact on participating products.
- Going forward, Schedule 3 items in the profit and loss statement will be impacted due to the reversal of ITC.
- The management stated that the impact of the GST rate cuts has already been factored into the EV assumptions and that a detailed EV walk, reflecting the impact through assumption changes, will be presented at the end of the financial year.
- The management opined that the GST exemption on life and health insurance premiums is a long-term positive for the sector and expects significant market expansion thereby likely to drive volumes.
- The company has passed on the full benefits to customers. While the disallowance of ITC is expected to impact profitability in the short term, the company believes that pick up in volumes is likely to offset the impact and focusing on growing the absolute VNB.
- In order to mitigate the impact, the management plans to pursue multifold strategy. It plans to renegotiate the commission structures with all distribution partners, a similar approach which was adopted during the new surrender value regulation changes. Secondly, the company plans to continue its focus on optimizing operating costs. Its cost to total premium stood at 12.7% vs. 15.5% in H1FY25, a reduction of 280bps YoY.

Others

- The board has approved a plan to raise Rs 12 bn via subordinated debt, to be executed depending on business needs and prevailing market conditions.

Valuation Methodology

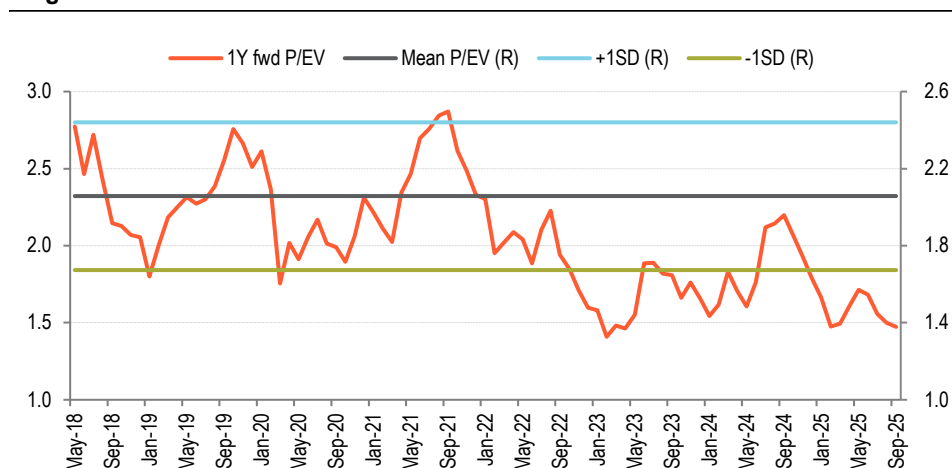
Maintain BUY on IPRU: The company witnessed pressure on business growth owing to disallowance of ITC which the management believes is a long-term positive despite short term pressure. Some impact was therefore reflected in the VNB and EV for H1FY26, while the full impact is expected to be captured in the full-year EV. Further, with ongoing active commission renegotiations and continued cost optimisation efforts, it expects its margins to improve, aided by favorable product mix. Hence, we maintain BUY on IPRU with TP of Rs 736 (earlier Rs 801), implying 1.6x its Sept'27 P/EV.

Fig 12 – Actual vs Estimates

(Rs mn)	Q2FY26A	Q2FY26E	Variance (%)
Gross Premium	1,22,970	1,23,296	(0.3)
APE	24,220	24,569	(1.4)
VNB	5,920	5,684	4.2
VNB Margin	24.4	23.1	131bps

Source: Company, BOBCAPS Research

Fig 13 – P/EV Band



Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates:

- **Changes in regulatory framework:** Any unfavourable change in regulations can impact business growth.
- **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.

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)	FY24A	FY25A	FY26E	FY27E	FY28E
Gross premium income	4,32,356	4,89,507	5,58,038	6,47,324	7,50,896
First year premium	70,315	81,146	90,756	1,05,276	1,22,121
Renewal premium	2,45,568	2,57,202	3,16,953	3,67,665	4,26,492
Single premium	1,16,473	1,51,160	1,50,330	1,74,383	2,02,284
Net written premium	4,17,597	4,72,594	5,38,507	6,24,409	7,24,314
Income from investments	4,65,503	2,28,195	2,70,411	3,25,927	3,80,549
Other Income	20,069	5,410	5,907	6,449	7,042
Total income	9,03,169	7,06,199	8,14,825	9,56,785	11,11,905
Commissions	37,220	48,594	55,804	64,732	90,108
Operating expenses	40,926	39,746	50,223	55,023	60,072
Benefits and bonuses paid	4,00,060	4,61,825	5,11,581	5,86,944	6,56,953
Change in liabilities (net)	4,06,391	1,35,714	1,72,900	2,21,312	2,70,001
Others	0	0	0	0	1
Total expenses	8,84,596	6,85,879	7,90,509	9,28,012	10,77,134
Surplus before tax	18,573	20,321	24,316	28,774	34,771
Provision for tax	7,681	9,424	10,811	12,767	14,669
Surplus after tax	10,892	10,897	13,505	16,007	20,103
Trf to shareholders' a/c	14,719	10,931	12,830	15,527	18,093
Balance being FFA	(3,827)	(34)	0	0	0

Income Statement (Non-technical)

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Trf from policyholders' a/c	14,719	10,931	12,830	15,527	18,093
Income from investments	13,692	6,960	9,821	11,294	12,988
Contr. to policyholders' fund	18,022	3,178	3,496	3,846	4,230
Others	(1,156)	(1,348)	(1,472)	(1,575)	(1,685)
PBT	9,232	13,364	17,683	21,400	25,166
Provision for taxation	708	1,474	1,768	2,140	2,517
PAT	8,524	11,891	15,914	19,260	22,649
Dividend+Interim div.+DDT	867	1,236	872	873	873

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Equity	1,10,086	1,19,413	1,35,327	1,54,587	1,77,237
Policyholders' funds	27,31,066	28,74,403	33,11,627	38,28,552	44,27,446
FFA	12,866	12,832	12,798	12,764	12,730
Others	81,251	81,822	70,998	76,847	83,457
Total liabilities	29,35,269	30,88,470	35,30,749	40,72,750	47,00,870
Shareholders' funds	1,05,755	1,40,550	1,61,632	1,85,877	2,13,758
Policyholders' funds	11,43,182	12,86,988	13,38,467	15,25,852	17,39,472
Assets to cover linked liab.	16,48,424	16,12,399	19,83,251	24,39,398	30,00,460
Others	0	0	0	0	0
Total assets	29,35,269	30,88,470	35,30,749	40,72,750	47,00,870

Key Metrics

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
AUM (Rs mn)	28,97,361	30,39,936	34,83,350	41,51,128	49,53,690
NBP (Rs mn)	1,86,788	2,32,306	2,41,085	2,79,659	3,24,404
APE (Rs mn)	90,460	1,04,070	1,10,835	1,28,568	1,42,711
VNB (Rs mn)	22,253	23,700	26,489	31,113	35,535
VNB margin (%)	24.6	22.8	23.9	24.2	24.9
Embedded value (Rs mn)	4,23,370	4,79,510	5,44,447	6,19,332	7,04,779
ROEV (%)	14.1	13.0	13.7	13.9	13.9
ROE (%)	8.1	10.4	12.5	13.3	13.7
Opex ratio (%)	9.5	8.1	9.0	8.5	8.0
Cost ratio (%)	18.1	18.0	19.0	18.5	20.0
Solvency ratio (%)	-	-	-	-	-
EPS (Rs)	5.9	8.2	11.0	13.3	15.7
BVPS (Rs)	76.5	82.8	93.9	107.5	123.3
EVPS (Rs)	294.1	332.3	377.7	430.9	490.3

Source: Company, BOBCAPS Research

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

BUY – Expected return >+15%

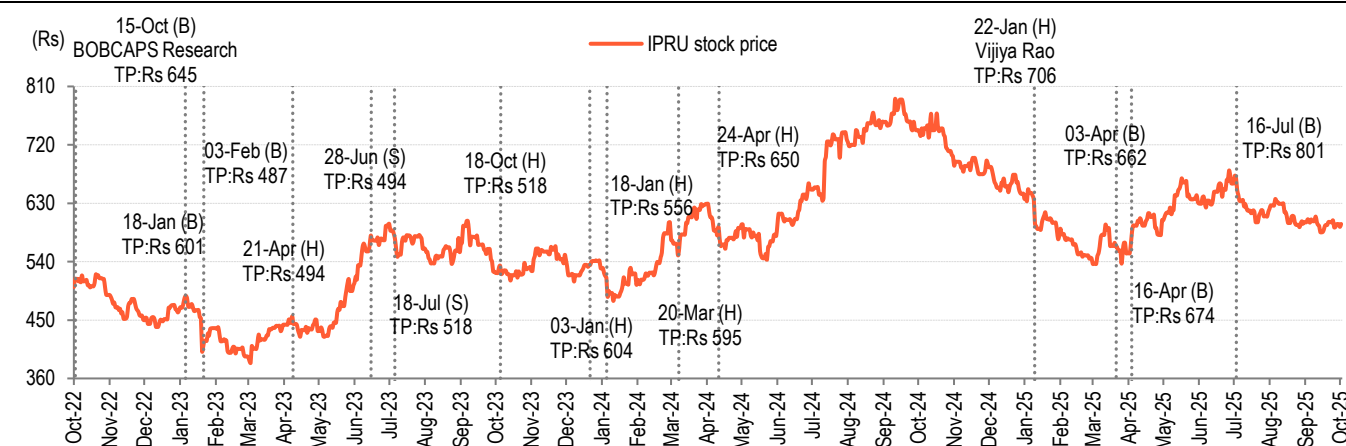
HOLD – Expected return from -6% to +15%

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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