

BUY

TP: Rs 674 | ▲ 19%

ICICI PRUDENTIAL LIFE

| Insurance

| 16 April 2025

APE declines, margin expands

- APE declines 3% YoY Q4FY25 vs our expectation of moderate growth, grew 15% YoY in FY25
- VNB margin expands in Q4FY25, contracts ~180bps in FY25 led by higher ULIPs share
- Maintain BUY with TP of Rs 674, 1.6x its FY27E P/EV, on stable performance in future

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VNB growth moderated: IPRU's VNB grew moderate at 2.4% YoY to Rs 7.95bn in Q4FY25, below our estimate of Rs 8.1bn; while APE de-grew 3% YoY in Q4FY25, on a high base of 4QFY24. This was primarily driven by lower growth in ULIPs (de-grew 3% YoY in Q3FY25, up 42% in Q3FY25, up 40% YoY in Q2FY25) and annuity business during the quarter. VNB margin expanded by ~120bps YoY to 22.7%, aided by increase in the non-linked business growth. For FY25, APE witnessed a strong 15% YoY growth, on a lower base and VNB rose 6% YoY. We expect APE to grow at 13% CAGR in FY24-FY27E. VNB margin was at 22.8% vs 24.6% in FY24. Management reiterated to continue focusing on higher VNB growth leading to APE growth.

Non linked segment share increased: Non-linked share in the product mix increased to 28.6% in Q4FY25 vs 16.3% in Q3FY25. Share of linked business declined to 43.4% vs 49.2% in Q3FY25. Group funds share, too, declined to 7.2% vs 11% in Q3FY25.

Bancassurance growth comes off: APE from bancassurance moderated to 7% YoY (vs 19% YoY growth in Q3FY25), owing to the company's focus on its proprietary channels- agency and direct channels. Both the agency and direct channels increased 27% YoY and 20% YoY, constituting 27% and 13% of the distribution mix respectively. ICICI Bank contributed approximately 14–15% to the company's APE in FY25.

Maintain BUY on IPRU: For IPRU, APE outpaced the industry growth in FY25, driven by broad-based growth among distribution channels, as the company continues to invest in distribution with the launch of industry-first innovative products. With respect to margins, it is expected to stabilise, as the ULIP share is likely to decline, given the moderation in market buoyancy in future, coupled with large potential headroom for non-par products to provide tailwinds. Hence, we maintain BUY on IPRU with TP of Rs 674 (earlier Rs 662), implying 1.6x its FY27E P/EV.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	IPRU IN/Rs 567
Market cap	US\$ 9.5bn
Free float	27%
3M ADV	US\$ 9.9mn
52wk high/low	Rs 797/Rs 515
Promoter/FPI/DII	73%/15%/17%

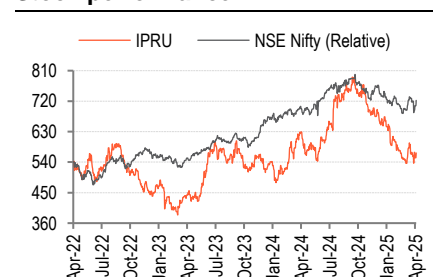
Source: NSE | Price as of 15 Apr 2025

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
NBP (Rs mn)	2,32,306	2,30,511	2,52,410
APE (Rs mn)	1,04,070	1,17,287	1,32,769
VNB (Rs mn)	23,700	27,445	31,732
Embedded Value (Rs mn)	4,79,510	5,45,888	6,22,060
VNB margin (%)	22.8	23.4	23.9
EVPS (Rs)	333.0	379.4	432.8
EPS (Rs)	8.3	9.5	13.2
Consensus EPS (Rs)	-	-	-
P/EV (x)	1.7	1.5	1.3

Source: Company, Bloomberg, BOBCAPS Research

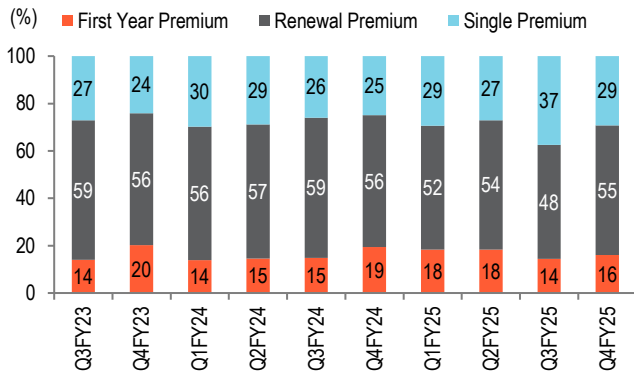
Stock performance



Source: NSE

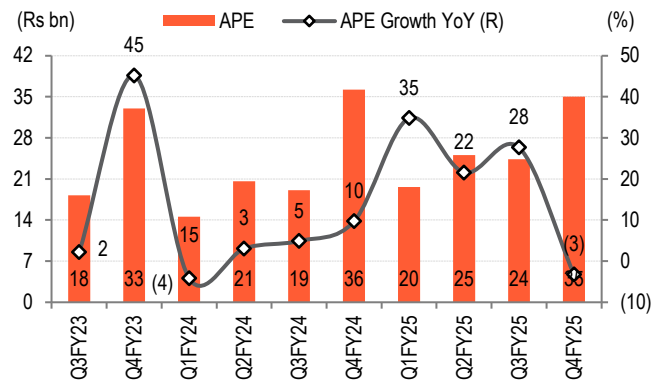


Fig 1 – Renewal premium share increases to 55% in Q4



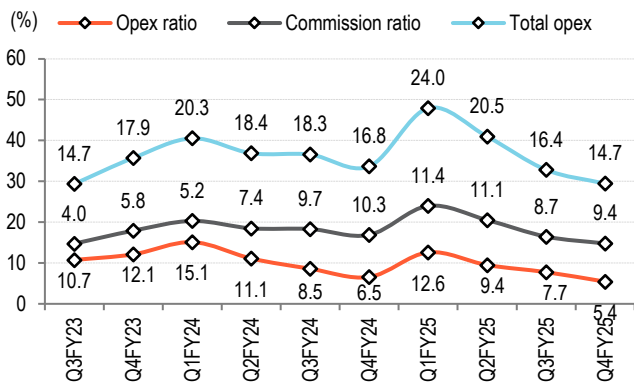
Source: Company, BOBCAPS Research

Fig 2 – APE de-grew 3% YoY



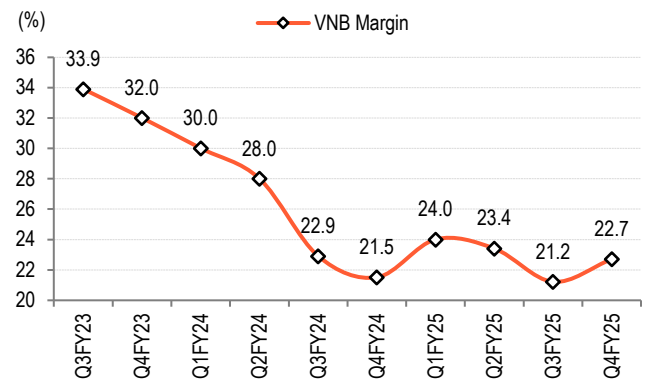
Source: Company, BOBCAPS Research

Fig 3 – Total expense ratio continues to moderate



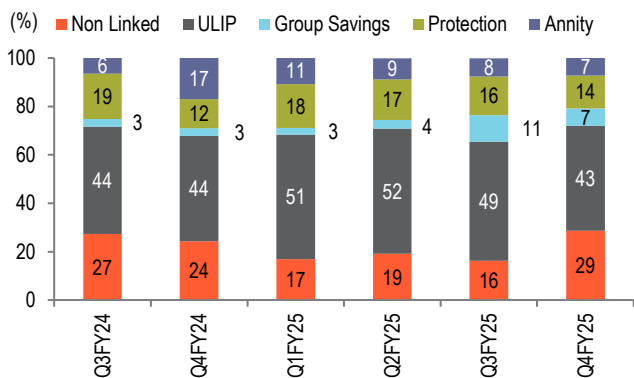
Source: Company, BOBCAPS Research

Fig 4 – Expansion in the VNB margins (up ~120bps YoY)



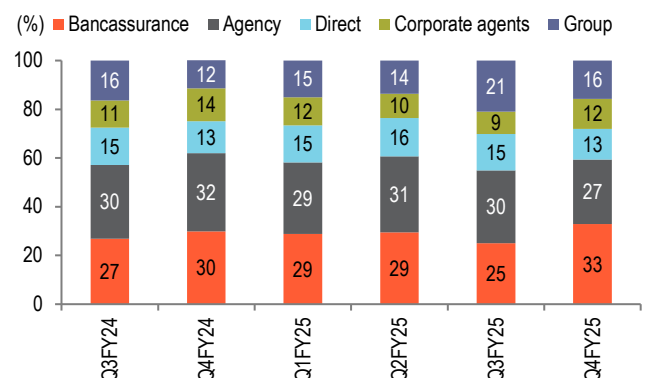
Source: Company, BOBCAPS Research

Fig 5 – Share of ULIP in the product mix continue to decline

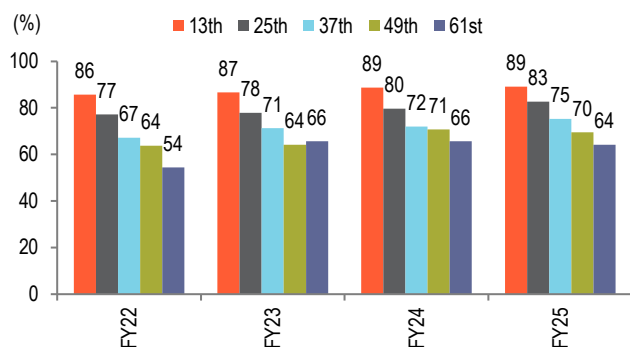


Source: Company, BOBCAPS Research

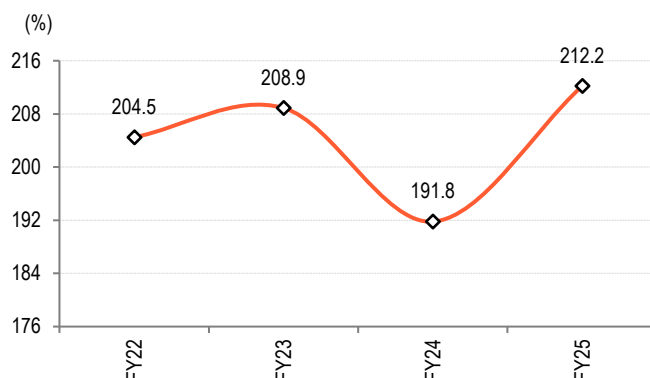
Fig 6 – Agency and direct together delivered strong APE growth in FY25



Source: Company, BOBCAPS Research

Fig 7 – Long term persistency moderates a bit


Source: Company, BOBCAPS Research

Fig 8 – Adequate solvency maintained as on date


Source: Company, BOBCAPS Research

Fig 9 – Policyholders' account

(Rs mn)	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)
Gross premium income	1,68,316	1,51,500	11.1	1,26,601	32.9
First Year Premium	27,092	29,464	(8.1)	18,246	48.5
Renewal Premium	92,094	84,281	9.3	60,900	51.2
Single Premium	49,130	37,756	30.1	47,455	3.5
Reinsurance	4,625	3,616	27.9	3,988	16.0
Net premium income	1,63,692	1,47,885	10.7	1,22,614	33.5
Income from investments (Net)	(9,049)	72,653	(112.5)	(79,059)	(88.6)
Other income	526	549	(4.2)	600	(12.4)
Contribution of funds from Shareholders' A/c	1,206	4,828	(75.0)	1,010	19.4
Total	1,56,375	2,25,915	(30.8)	45,165	246.2
Commission on					
First Year Premium	27,092	29,464	(8.1)	18,246	48.5
Renewal Premium	92,094	84,281	9.3	60,900	51.2
Single Premium	49,130	37,756	30.1	47,455	3.5
Rewards	2,385	2,937	(18.8)	1,647	44.8
Net Commission	15,752	15,659	0.6	11,037	42.7
Expenses of Management	24,777	25,498	(2.8)	20,781	19.2
Benefits Paid (Net)	1,23,271	1,25,162	(1.5)	1,23,110	0.1
Change in actuarial liability	1,620	71,566	(97.7)	(1,05,013)	(101.5)
Surplus/Deficit	2,937	2,059	42.6	4,190	(29.9)

Source: Company, BOBCAPS Research

Fig 10 – Shareholders' account

(Rs mn)	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)
Transfer from Policyholders' Account	3,761	3,178	18.3	3,260	15.4
Total income under Shareholders' Account					
Investment Income	2,222	4,269	(47.9)	1,802	23.3
Other income	526	549	(4.2)	600	(12.4)
Expenses other than those related to insurance business	556	280	98.3	296	87.7
Transfer of funds to Policyholders' Account	1,206	4,828	(75.0)	1,010	19.4
Profit before tax	4,141	2,343	76.7	3,758	10.2
Provisions for tax	278	606	(54.1)	502	(44.5)
Profit after tax and before extraordinary items	3,863	1,738	122.3	3,257	18.6

Source: Company, BOBCAPS Research

Fig 11 – Balance sheet

(Rs mn)	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)
Sources of funds					
Share Capital	14,453	14,406	0.3	14,452	0.0
Share application money received pending allotment of shares	0	4	(100.0)	0	-
Reserves and Surplus	1,05,626	92,223	14.5	1,01,569	4.0
Credit / (Debit) Fair Value Change Account	(666)	3,453	(119.3)	448	(248.7)
Total Equity	1,19,413	1,10,086	8.5	1,16,469	2.5
Policyholders' Funds	28,74,403	27,31,066	5.2	28,70,994	0.1
Borrowing	26,000	12,000	116.7	26,000	0.0
Policy Liabilities	28,29,936	26,80,793	5.6	28,23,206	0.2
- Insurance Reserves	12,73,360	11,01,621	15.6	12,13,584	4.9
- Provision for Linked Liabilities	15,56,577	15,79,173	(1.4)	16,09,622	(3.3)
Add: Fair value change	44,466	50,273	(11.6)	47,787	(7.0)
FFA	12,832	12,866	(0.3)	13,656	(6.0)
FFA - provision of lapsed policies	55,822	69,251	(19.4)	60,933	(8.4)
Total Sources of funds	30,88,470	29,35,269	5.2	30,88,052	0.0
Application of Funds					
Investments	14,27,537	12,48,937	14.3	13,89,445	2.7
- Shareholders'	1,40,550	1,05,755	32.9	1,39,669	0.6
- Policyholders'	12,86,988	11,43,182	12.6	12,49,777	3.0
Assets held to cover Linked Liabilities	16,12,399	16,48,424	(2.2)	16,70,555	(3.5)
Loans	24,191	17,606	37.4	22,281	8.6
Fixed Assets	8,451	7,180	17.7	8,115	4.1
Net Current Assets	15,892	13,122	21.1	(2,344)	(778.0)
Total application of funds	30,88,470	29,35,269	5.2	30,88,052	0.0

Source: Company, BOBCAPS Research

Earnings call highlights

VNB and margin

- ICICI Pru's Value of New Business (VNB) margin declined to 22.8% in FY25 from 24.6% in FY24. The contraction was primarily driven by:
 - Operating assumption changes: –3.3%, largely due to revised mortality assumptions.
 - Economic assumption changes: –0.6%, mainly attributed to shifts in the yield curve.
 - Favorable impact of product mix, customer segment changes, and repricing: +2.0%.
- Additionally, there was a negative economic and investment variance of Rs. 0.24 bn, influenced by yield curve movement and equity market volatility.

Product mix

- Linked business declined marginally (low single digits) but outperformed the industry due to strong investment options and comprehensive nominee benefit propositions.
- The single premium annuity business is showing signs of recovery after being significantly impacted last year.
- Retail protection grew steadily and now accounts for 37-38% of the overall protection portfolio.
- The non-MFI segment of the credit life business performed well with stable growth.
- However, the MFI segment, which constitutes approximately 40% of the credit life business, continues to face headwinds.

Persistency

- Slight decline in persistency ratios, particularly for the 61st month, due to the "Cover Continuance" option, which allows policyholders to retain benefits without paying premiums. This remains value accretive to ICICI Pru, as the company continues to earn Fund Management Charges (FMC) on invested funds.

Others

- Launched ICICI Pru GIFT Select, a non-participating guaranteed return product with customizable income streams, tailored to meet evolving customer needs in a volatile market environment.
- ICICI Pru rolled out a 100% money-back annuity product in Q4 FY25, aligning with the new surrender value regulations.
- Net addition of 40,000 agents during the year:
 - 60,000 new agents hired
 - 20,000 removed based on inactivity (no business generated in the past 4-5 years)

Valuation methodology

Maintain BUY on IPRU: APE for the company outpaced the industry growth in FY25, driven by broad based growth among the distribution channels as the company continues to invest in the distribution with launching of industry first innovative products. With respect to margins, it is expected to stabilize going forward as the ULIP share is likely to decline given the moderation in the market buoyancy going forward coupled with large potential headroom for non-par products to provide tailwinds. Hence, we maintain BUY on IPRU with a TP of Rs 674 (earlier Rs 662), implying 1.6x its FY27E 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)	FY24A	FY25A	FY26E	FY27E	FY28E
Gross premium income	4,32,356	4,89,507	5,33,563	5,84,251	6,39,755
First year premium	70,315	81,146	86,775	95,019	1,04,045
Renewal premium	2,45,568	2,57,202	3,03,051	3,31,841	3,63,366
Single premium	1,16,472	1,51,160	1,43,736	1,57,391	1,72,344
Net written premium	4,17,596	4,72,594	5,15,422	5,64,387	6,18,003
Income from investments	4,65,504	2,28,195	1,88,480	2,14,868	2,42,800
Other Income	19,973	5,410	5,907	6,449	7,042
Total income	9,03,073	7,06,199	7,09,809	7,85,704	8,67,846
Commissions	37,220	48,594	56,024	61,346	67,174
Operating expenses	40,830	39,746	48,021	52,583	57,578
Benefits and bonuses paid	4,00,060	4,61,825	4,38,108	4,79,729	5,25,303
Change in liabilities (net)	4,06,390	1,35,714	1,45,214	1,62,640	1,82,157
Others	0	0	0	0	1
Total expenses	8,84,500	6,85,879	6,87,368	7,56,298	8,32,213
Surplus before tax	18,573	20,321	22,441	29,406	35,633
Provision for tax	7,681	9,424	9,240	10,246	11,334
Surplus after tax	10,892	10,897	13,202	19,159	24,299
Trf to shareholders' a/c	14,719	10,931	12,806	18,585	23,571
Balance being FFA	(3,827)	(34)	396	575	729

Income Statement (Non-technical)

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Trf from policyholders' a/c	14,719	10,931	12,806	18,585	23,571
Income from investments	13,692	6,960	7,309	7,874	8,465
Contr. to policyholders' fund	17,926	3,178	3,496	3,846	4,230
Others	(1,252)	(1,348)	(1,445)	(1,517)	(1,608)
PBT	9,233	13,364	15,174	21,097	26,198
Provision for taxation	708	1,474	1,517	2,110	2,620
PAT	8,524	11,891	13,656	18,987	23,578
Dividend+Interim div.+DDT	867	1,228	867	868	868

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Equity	1,10,086	1,19,413	28,110	47,097	70,675
Policyholders' funds	27,31,066	28,74,403	34,22,705	39,12,500	44,74,996
FFA	12,866	12,832	13,858	14,967	16,164
Others	1,35,980	1,35,755	1,46,825	1,58,002	1,70,405
Total liabilities	29,89,998	31,42,402	36,11,498	41,32,565	47,32,240
Shareholders' funds	1,05,755	1,40,550	1,51,794	1,63,178	1,75,416
Policyholders' funds	11,43,182	12,86,988	15,09,322	17,36,761	19,99,701
Assets to cover linked liab.	16,48,424	16,12,399	21,42,668	24,42,855	27,85,100
Others	92,637	1,02,466	(1,92,285)	(2,10,230)	(2,27,977)
Total assets	29,89,998	31,42,402	36,11,498	41,32,565	47,32,240

Key Metrics

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
AUM (Rs mn)	28,97,361	30,39,936	38,03,783	43,42,795	49,60,217
NBP (Rs mn)	1,86,788	2,32,306	2,30,511	2,52,410	2,76,389
APE (Rs mn)	90,460	1,04,070	1,17,287	1,32,769	1,50,693
VNB (Rs mn)	22,253	23,700	27,445	31,732	36,468
VNB margin (%)	24.6	22.8	23.4	23.9	24.2
Embedded value (Rs mn)	4,23,358	4,79,510	5,45,888	6,22,060	7,09,291
ROEV (%)	14.1	13.6	14.0	14.1	14.2
ROE (%)	8.1	10.4	18.5	50.5	40.0
Opex ratio (%)	9.5	8.1	9.0	9.0	9.0
Cost ratio (%)	18.2	18.0	19.5	19.5	19.5
Solvency ratio (%)	-	-	-	-	-
EPS (Rs)	5.9	8.3	9.5	13.2	16.4
BVPS (Rs)	76.5	82.9	19.5	32.8	49.2
EVPS (Rs)	294.3	333.0	379.4	432.8	493.5

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

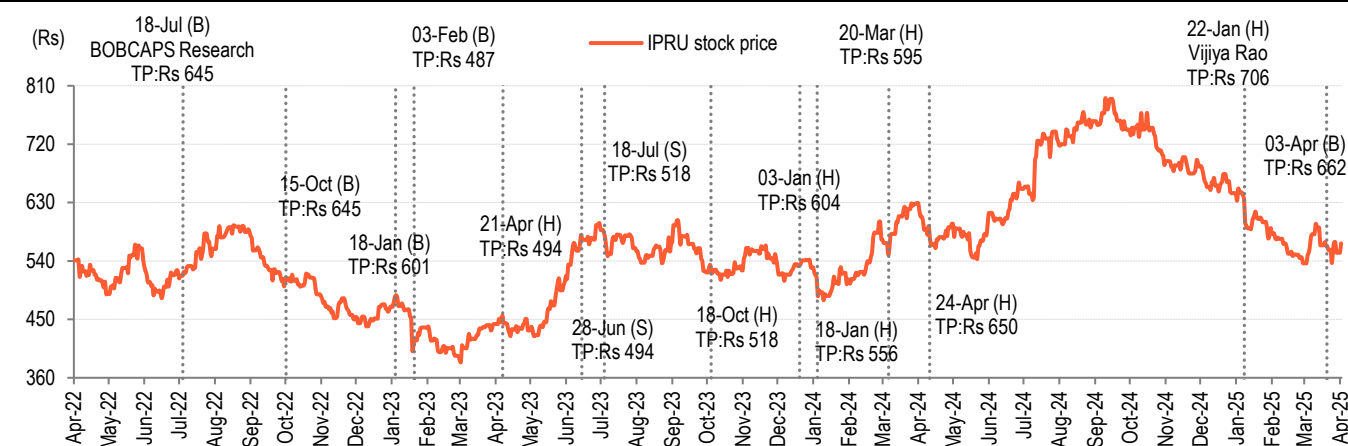
HOLD – Expected return from -6% to +15%

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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