Sharekhan by BNP PARIBAS

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ICICI Prudential Life Insurance

A stable performance

Banks & Finance | Sharekhan code: ICICIPRULI | Result Update

Stock Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 499**	
Price Target: **Rs. 584**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

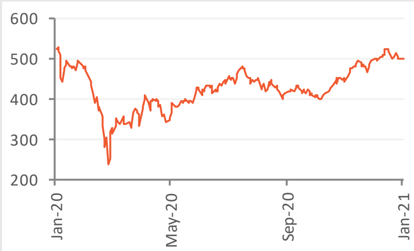
Company details

Market cap:	Rs. 71,661 cr
52-week high/low:	Rs. 537 / 222
NSE volume: (No of shares)	26.1 lakh
BSE code:	540133
NSE code:	ICICIPRULI
Free float: (No of shares)	38.1 cr

Shareholding (%)

Promoters	73.5
FII	18.5
DII	4.7
Others	3.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.3	22.2	10.5	-5.2
Relative to Sensex	-0.4	3.5	-12.7	-20.9

Sharekhan Research, Bloomberg

Summary

- Q3 was stable, with operational numbers largely matching expectations, indicating an encouraging recovery. Annualised premium equivalent (APE) growth momentum continued across channels.
- APE increased by 13.7% y-o-y, VNB margin for 9M FY2021 improved to 26% (from 21.7% for FY2020).
- We find the insurance space attractive with a long growth runway and believe that players with strong balance sheets and business metrics stand to gain; IPRU is available at 2.4x / 2.1x its FY2022E / FY2023E EVPS.
- We recommend a Buy rating on ICICI Prudential with a price target of Rs. 584.

Q3FY21 was a stable quarter, with operational numbers largely matching expectations indicating an encouraging recovery. Annualised premium equivalent (APE) growth momentum continued across channels. APE increased by 13.7% y-o-y, to Rs. 1,666 crore, indicating a revert to normalcy. Savings APE stood at Rs. 1409 crore, up 14.4% q-o-q for Q3 FY2021. Also, VNB margin for 9M FY2021 improved to 26% (from 21.7% for FY2020. An increase in VNB margin was primarily on account of increase in share of protection products in the mix. During 9MFY2021, protection APE was Rs. 703 crores resulting in an improvement in share of APE from 14.1% for 9MFY2020 to 17.8% in 9MFY2021. As a result, new business sum assured was Rs 1,61,161 crore up 22.2% y-o-y. IPRU has a strong distribution network and Bancassurance channel (courtesy strong partnerships, including with the promoter bank), which is a strong positive for insurance growth in India. Bancassurance already helps contribute to over 50% of APE income and with opening up and pick-up in banking business, we expect it to be a long-term growth driver. Management has maintained its guidance for VNB margins as its cost management and business mix improves. We believe m-o-m premium recovery trend for IPRU indicates its agility and ability to deploy digital channel and measures to ensure business continuity. Going forward, we expect protection and annuity products to continue seeing higher growth. We find the insurance space attractive, given a long runway for growth and believe that players with a strong balance sheet and business metrics would be able to tide over the crisis. IPRU's strong balance sheet, comfortable solvency, and structural growth potential are long-term positives. We maintain a Buy rating on the stock with a revised price target of Rs. 584.

Key positives

- Solvency ratio of 226% as on December 31, 2020
- Strong sequential improvement in persistency across all cohorts

Key negatives

- Value of New Business (VNB) stood at Rs 1030 crores for 9MFY2021, down by 9.3% y-o-y

Our Call

Valuation: IPRU is available at 2.4x / 2.1x its FY2022E / FY2023E EVPS, which we believe is reasonable given the quality of the franchise and business metrics. Despite challenges, premium recovery for IPRU and the insurance sector in general indicates agility and resilience. The ability to deploy digital channel and measures to ensure business continuity are encouraging trends for cost and business growth for the industry. We believe that the structural story for the insurance sector continues to be attractive with a long runway for growth and strong players are likely to be well-placed in terms of pricing and growth. IPRU's strong balance sheet, comfortable solvency and structural growth potential are long-term positives. We recommend a Buy rating on the stock with a price target of Rs. 584.

Key risk

A prolonged lockdown and adverse regulatory policies/guidelines may impact IPRU's profitability and growth.

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
EV	21,623	23,030	26,139	30,191	34,870
VNB Margins (%)	17.0	21.7	25.0	22.6	23.1
Networth	6,884	7,047	7,944	8,931	10,016
PAT	1,141	1,069	1,196	1,316	1,447
Operating RoEV (%)	20.2	15.5	16.0	16.5	16.5
P/EV	3.3	3.1	2.7	2.4	2.1

Source: Company; Sharekhan estimates

Key Conference call takeaways

- Distribution has been looking to diversify and have tied up with IDFC First Bank and IndusInd Bank has already started yielding result. In Q1 had partnered with RBL Bank, with AU Small Finance Bank. ICICI Prudential partnered with PhonePe and launched an instant term insurance plan with a very small ticket premium of Rs. 149.
- COVID-19 provisions have not been utilised so far.
- Persistency ratio has improved in 61st month, testimony to the business' long-term strength.
- Cost ratio in line with assumption, and Solvency ratio improved
- All channels have strong q-o-q growth, agency advisor count at 95% of normal. Direct channel grew by 23% q-o-q. The Bancassurance channel's focus typically is on term and annuity products.
- Added 83 new partners added including bancassurance and new age players.
- Protection mix is stable q-o-q but margin fell. Absolute VNB growth may be a better indicator as quarterly margins may be fluctuating. The nine-month trend of 26% VNB margins is better reflective of the business scenario and is amongst best in the industry.
- Retail protection has normalized in Industry, ICICI Prudential saw some decline, but it was expected as due to pandemic the medical tests etc not happening, there were supply-side constraints and it is still not fully normal. The company has a sufficient re-insurance business.
- Pricing wise, ICICI Prudential is competitive.
- The insurer sees an opportunity in group term insurance and credit Life is also looking to grow fast. Hence margins have been stable even if retail share dips.
- Product distribution from non-ICICI Bank channels comprises the full bouquet. ICICI Bank is focusing on annuity and believes guaranteed pension plans will gain traction.
- The company would like to grow VNB by driving savings and protection segments. ICICI Prudential expects that going forward, protection products' share will increase to 20% over next few years. Protection growth may be highest among all other categories.
- ICICI Prudential sees an opportunity to sell riders, which also contribute and hold margins in its business.
- Protection, Annuity, Credit Life, Group and non-PAR are doing well, and ICICI Bank has been able to grow Annity business by ~400% (on a small base). Non-PAR savings and PAR savings are interchangeable from a customer perspective. The segment combined has been growing ~35% and should remain healthy. As the pandemic stabilises, ICICI Prudential will get back to retail, protection segments, etc in a strong fashion. Group term has seen strong growth in 9MFY2021, credit Life has grown modestly in Q3FY2021.
- Persistency on ULIPs catch up is still happening. Persistency gap as compared to last year is closing fast.
- Strong growth in retail protection seen in the last 3 years and company is at a strong position now. However, during last year, there are operational challenges (COVID-related, medical tests, etc) impacted near-term performance. However, ICICI Prudential sees opportunity in Group term business to grow its protection business.

Results | Rs cr

Particulars	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %
Gross Premium Income	**9152.0**	**8,264**	**10.8**	**8,733**	**4.8**
First Year Premium	1360.5	1,874	-27.4	1,170	16.3
Renewal Premium	5680.1	5226	8.7	5,774	-1.6
Single Premium	2111.4	1164	81.4	1,789	18.0
Net premium earned	8970.8	8131	10.3	8,572	4.7
Investment Income	**19278.25**	**4588.7**	**320.1**	**7,949**	**142.5**
Other Income	23.4	23	1.8	24	-2.4
Total Income	28547.8	12898	121.3	16,835	69.6
Commission paid	**386.1**	**443**	**-12.9**	**350**	**10.3**
Expenses	1087	930	16.8	990	9.8
Change in actuarial liability	20047	5811	245.0	10,198	96.6
Profit Before Tax	326.6	304	7.4	330	-1.0
Tax Charge	21.05	2	952.5	27	-22.0
PAT	**305.6**	**302**	**1.2**	**303**	**0.8**

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Fast revert to normalcy, long runway for growth for life insurance players

For Q3FY2201, overall premium/APE growth for the insurance industry continued to be encouraging, despite weak demand for market-linked ULIPs, etc, continues. However, strong demand for protection and non-PAR segments continues. Even for December 2020, performance continued to improve as compared to the past nine months of FY2020, which indicate that the insurance sector is steadily but surely reverting to normalcy. Factors such as a large protection gap and expanding per capita income are key long-term growth drivers for the sector. According to industry reports, India has a high protection gap; and credit protection product is still at an early stage and has the potential to grow multi-fold as the penetration of retail loans improves in the country. Hence, we believe the insurance sector has a huge growth potential in India. In this backdrop, we believe strong players, armed with the right mix of products, services, and distribution, are likely to gain disproportionally from the opportunity.

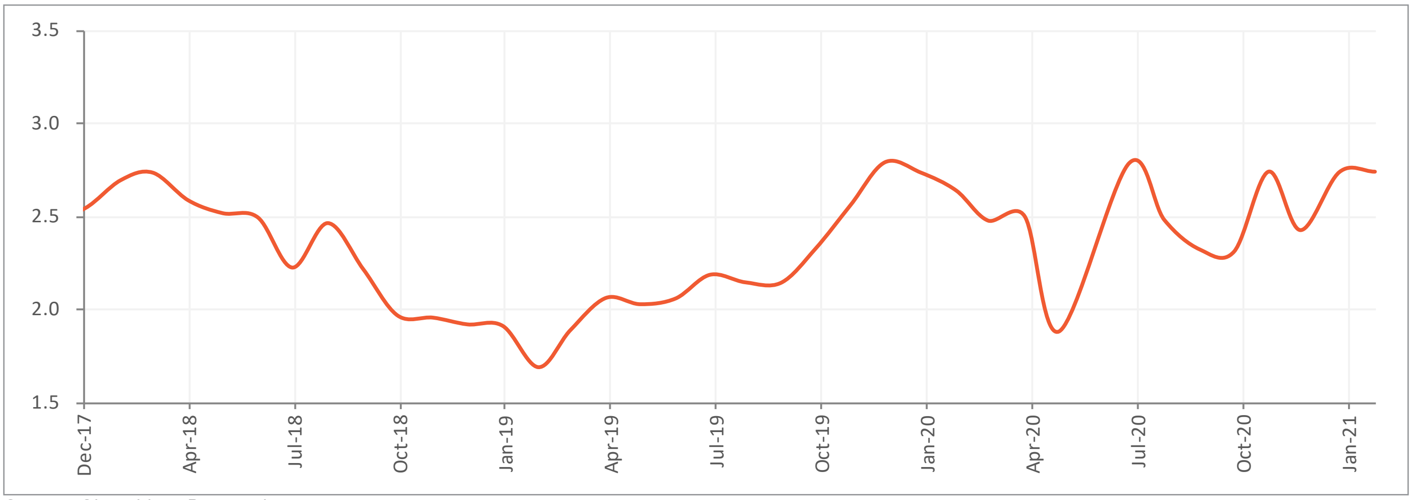
■ Company Outlook – Strong metrics; sustainable growth business

Business fundamentals remain strong despite challenges seen last year, regulatory changes, and market volatility. Strong VNB margins and growth in line with its guidance, diversifying business mix, and robust margins are positives. We believe the growth trajectory is indicating improvement and resilience. IPRU has built a large agency force (which will be key support for growth). IPRU stands out as a player with low-risk balance sheet and comfortable levels of capitalisation. While a ULIP-heavy topline is also prone to capital market linked volatility, we believe growing proportion of the pure-protection business and savings business are long-term positives. IPRU has a strong distribution network and bancassurance channel (courtesy its strong bancassurance partnerships, including with the owner), which is a strong growth lever for insurance growth in India. Bancassurance already helps contribute over 50% to its APE income and we expect it to be a long-term growth driver. Considering the company's strong balance sheet, comfortable solvency, and growth potential within the industry, we believe IPRU has significant and sustainable long-term positives.

■ Valuation – Maintain Buy with a Price Target of Rs 584

IPRU is available at 2.4x/2.1x its FY2022E / FY2023E EVPS, which we believe is reasonable given the quality of the franchise and business metrics. Despite challenges, premium recovery for IPRU and the insurance sector in general indicates agility and resilience. The ability to deploy digital channel and measures to ensure business continuity are encouraging trends for cost and business growth for the industry. We believe that the structural story for the insurance sector continues to be attractive with a long runway for growth and strong players are likely to be well-placed in terms of pricing and growth. IPRU's strong balance sheet, comfortable solvency and structural growth potential are long-term positives. We recommend a Buy rating on the stock with a price target of Rs. 584.

One-year forward P/EV (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	CMP	P/BV(x)		P/E(x)		RoA (%)		RoE (%)	
	Rs/Share	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
ICICI Pru Life	499	9.0	8.1	60.2	54.3	0.7	0.8	15.1	14.7
HDFC Life	682	95.1	84.2	95.1	84.2	1.2	1.1	18.9	18.5

Source: Company, Sharekhan research

About company

IPRU is promoted by ICICI Bank Limited and a foreign partner headquartered in United Kingdom. The company began its operations in fiscal 2001 and has consistently been amongst the top private sector life insurance companies in India on a Retail Weighted Received Premium (RWRP) basis. The company offers an array of products in the protection and savings category, which match the different life stage requirements of customers, enabling them to provide a financial safety net to their families as well as achieve their long-term financial goals. The company distributes its products through a large pan-India network of individual agents, corporate agents, banks and brokers, along with the company's proprietary sales force and its website. The company is the third largest private sector life insurance company in the country. The digital platform of the company provides a paperless on-boarding experience to customers, empowers them to conduct an assortment of self-service transactions, provides a convenient route to make digital payments for purchasing and making renewal premium payments, facilitates a hassle-free customer experience.

Investment theme

The company has embarked on a strategy to make the business model more resilient in the long term. As part of this, it would be focusing on mass market customer segment as well, while continuing to maintain its strong market position amongst the more affluent class. As part of this strategy, the company has introduced lower ticket-size products. The company has a strong balance sheet with solvency ratio of over 226% (minimum IRDAI-required levels of 150%). The company also has high persistency ratios, which is indicative of its acceptability. We believe due to its strong brand image, pan-India bancassurance partnerships, and diversifying business mix (focusing on more protection and retail business), its growth is likely to be more sustainable for the long term. IPRU is well placed to capture and ride the strong growth potential that is present in the Indian life insurance industry.

Key Risks

A prolonged lockdown and adverse regulatory policies/guidelines may impact IPRU's profitability and growth.

Additional Data

Key management personnel

Mr. N. S. Kannan	Managing Director & Chief Executive Officer
Mr. Amit Patla	Chief Distribution officer
Mr. Manish Kumar	Chief Investment Officer
Mr. Satyan Jambunathan	Chief Financial Officer
Mr. Deepak Kinger	Chief Risk & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	PRUDENTIAL HOLDINGS LTD	22.1
2	Compassvale Investments Pte Ltd	2.0
3	SBI Funds Management Pvt Ltd	2.0
4	SBI Funds Management Pvt Ltd	1.9
5	BlackRock Inc	1.2
6	Republic of Singapore	1.1
7	Amansa Holdings Pvt Ltd	1.0
8	Baillie Gifford & Co	1.0
9	Vanguard Group Inc/The	0.8
10	Norges Bank	0.7

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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