Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

ICICI Prudential Life Insurance

On track for stable growth

Insurance	Sharekhan code: ICICIPRULI
Reco/View: Buy ↔	CMP: Rs. 572 / Price Target: Rs. 754 ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 16.92

Updated Jan 08, 2022

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

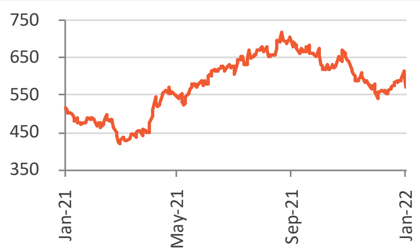
Company details

Market cap:	Rs. 82,493 cr
52-week high/low:	Rs. 725/ 411
NSE volume: (No of shares)	35.7 lakh
BSE code:	540133
NSE code:	ICICIPRULI
Free float: (No of shares)	38.2 cr

Shareholding (%)

Promoters	73.4
FII	16.9
DII	4.3
Others	5.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.7	-9.1	-5.4	11.0
Relative to Sensex	-2.0	-7.7	-19.7	-10.7

Sharekhan Research, Bloomberg

Summary

- In Q3FY22, APE grew moderately by 16% y-o-y. Annuity business continued to demonstrate strong growth at 75% y-o-y and constituted ~20% of overall new business premium. Protection business, which constituted ~28% of overall new business premium, grew by ~19% y-o-y.
- ULIP business continues to witness strong growth (of ~21% y-o-y), owing to buoyant equity markets. VNB recorded robust growth of 35% y-o-y to Rs. 1,388 crore, with VNB margin at 27.1%, up by 102 bps y-o-y and 65 bps q-o-q in Q3FY22, primarily on account of better product mix.
- We believe that the growth prospects of protection business remains robust given the under-penetration in the long term and the growth story in the Indian insurance space continues to hold true.
- We have revised our estimates and target multiple and maintain a Buy with a revised PT of Rs. 754.

ICICI Prudential Life Insurance (IPRU) reported a PAT of Rs. 312 crore versus our estimate of Rs. 279 crore, down by 30% q-o-q and up by 2% y-o-y. Both investment income and new premium declined sequentially. Revenue fell by 57% q-o-q in Q3FY22 owing to a decrease in the investment income which fell by 95% q-o-q. New business premium (NBP) grew by 10% y-o-y on the back of growing importance of financial security which was largely contributed by protection and annuity segments. We believe that Q4FY22 is likely to be a strong quarter owing to launch of new products and seasonal bias. Value of new business (VNB) grew by 35% y-o-y to Rs.1,388 crore. VNB margins expanded to 27.1 % vs. 26% in Q3FY21, aided by better product mix with higher share of annuity and non-par savings products. The management guidance to double FY19 VNB by FY23E, through better product mix is likely to drive growth going ahead coupled with strong distribution capabilities.

Key positives

- The management was optimistic on the growth of the retail term protection segment thereby indicating a likely turnaround in this highly profitable category going ahead.
- The company do not see near-term impact on the demand for the protection (retail) segment due to price hike. Further, the price hike in the retail term segment was a without impacting any VNB margins.
- The company hold a Rs.2.03 billion as COVID-19 reserves in Q3FY22 vs. Rs. 4 billion in Q2FY22.

Key negatives

- Total APE growth was moderate at ~16% y-o-y in Q3FY22 with lower contribution from the non-linked savings products.

Management Commentary

- The management was optimistic on the growth of retail-term protection segment thereby indicating a likely turnaround in this highly profitable category going ahead.
- It intends to drive growth in Q4FY22 and FY23 by launching two new products.
- The management opines that the provision buffers are sufficient for any incremental death claims due to COVID-19.

Our Call

Valuation – We maintain a Buy rating on the stock with a revised PT of Rs. 754: IPRU currently trades at 2.2x/2x its FY2023E/FY2024E EVPS, which we believe is reasonable, given the quality of the franchise and robust growth trajectory. 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 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 believe significant reduction in COVID-19 cases and increase in the vaccination drives in India are encouraging. We have fine-tuned our estimates and our target multiple. We maintain Buy with a revised PT of Rs. 754.

Key Risks

Slower growth in protection products and APE growth may impact earnings. Any adverse regulatory policies/guidelines may affect its profitability.

Valuation Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
EV	29,106	32,017	35,538	40,158
New Business Premium	13,226	17,062	20,986	25,603
PAT	960	931	1,304	1,499
EPS (Rs)	6.7	6.5	9.1	10.4
ROE (%)	10.5	9.9	12.8	13.4
P/EV (x)	2.0	1.8	1.6	1.4
P/BV (x)	8.9	8.6	7.9	7.2

Source: Company; Sharekhan estimates

Results (Consolidated) Rs cr

Particulars	Q3FY22	Q3FY21	Q2FY22	y-o-y (%)	q-o-q (%)
NBP	3,899	3,472	3,963	12.3	-1.6
Net Premium	9,074	8,971	9,287	1.1	-2.3
Income from investments	737	19,278	13,546	-96.2	-94.6
Other income	29	23	26	24.2	10.2
Total Income	9,865	28,548	23,129	-65.4	-57.3
Net Commission	421	386	425	9.0	-1.0
Operating Expenses	838	701	769	19.6	9.0
Provision for taxes	47	24	26	96.5	-
Surplus/(Deficit)	409	-296	482	-238.1	-15.2
PBT	311	325	476	-4.5	-34.7
PAT	311	304	446	2.1	-30.3

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Insurance industry has long-term positive growth prospects

New business, based on retail weighted received premium of the industry, clocked a CAGR of 10.4% fromFY2002 to FY2021. Insurance density was still very low compared to international benchmarks. In addition, India's retail protection sum assured as a percentage of GDP is only 19%. As against this, the sum-assured to GDP ratio of other Asian economies such as Thailand, South Korea, and Malaysia is 113%, 131%, and 142%, respectively, pointing towards a huge growth potential. However, strong demand for protection and non-PAR segments continues. Performance has continued to improve, which indicates that the insurance sector is steadily but surely reverting to normalcy. Factors such as a large protection gap and expanding per capitain come are key long-term growth drivers for the sector. 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 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 is likely to gain disproportionately from the opportunity. The industry's growth even during the pandemic shows a promising future for India's life insurance sector, and the pandemic has highlighted the protection gap in the country.

■ 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 was 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 40% to its APE income; and we expect it to be along-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 revised PT of Rs. 754

IPRU currently trades at 2.2x/2x its FY2023E/FY2024E EVPS, which we believe is reasonable, given the quality of the franchise and robust growth trajectory. 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 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 believe significant reduction in COVID-19 cases and increase in the vaccination drives in India are encouraging. We have fine-tuned our estimates and our target multiple. We maintain Buy with a revised PT of Rs. 754.

Peer Comparison

Company	CMP	MCAP	P/BV(x)		P/EV(x)		RoE (%)	
	Rs/Share	(Rs Cr)	FY22E	FY23E	FY22E	FY22E	FY22E	FY22E
ICICI Prudential Life Insurance	574	82,716	1.8	1.6	1.8	1.6	9.9	12.8
HDFC Life Insurance Company	656	138,514	14.1	12.4	4.5	3.8	17.4	17.5

Source: Company; Sharekhan Research

About company

IPRU is promoted by ICICI Bank Limited and a foreign partner head quartered in United Kingdom. The company began its operations in fiscal 2001 and has consistently been among 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-termfinancial 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 ofthe 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, and 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 among 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 200+% (minimum IRDAI-required levels of 150%). The company also has high persistency ratios, which are 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

Slower growth in protection products and APE growth may impact earnings. Any adverse regulatory policies/ guidelines may adversely impact its profitability.

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

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	1.9
4	BlackRock Inc	1.6
5	Baillie Gifford & Co	1.2
6	Touchstone Advisors	1.0
7	Norges Bank	0.8
8	Vanguard Group Inc/The	0.8
9	Nomura Holdings	0.5
10	UTI Asset Management Co	0.3

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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