

# ICICI Pru Life

Refer to important disclosures at the end of this report

## Ends the year well; topline growth key to achieving FY23 target

|   |                                |
|---|--------------------------------|
| <b>CMP</b>                              | <b>Target Price</b>            |
| <b>Rs 541</b><br>as of (April 17, 2022) | <b>Rs 660 (▲)</b><br>12 months |
| <b>Rating</b>                           | <b>Upside</b>                  |
| <b>BUY (■)</b>                          | <b>22.0 %</b>                  |

IPRU's FY22 results came in marginally better than our estimates, thanks to strong APE growth in Mar'22 and better product mix. After ending FY22 on a high note, the company reaffirmed its guidance of doubling FY19 VNB by FY23. VNB margin expansion has done the heavy-lifting in VNB growth in the last three years. Since the scope for margin expansion is relatively limited, the key to achieving ~22% VNB growth in FY23 to double FY19 VNB is APE growth.

- **Strong growth in Mar'22 and better product mix drive minor beat in numbers:** IPRU reported FY22 VNB of Rs21.6bn and a VNB margin of 28.0% that came in slightly better than our estimates of Rs20.7bn and 27.3%, respectively. The beat was largely led by strong new business growth in Mar'22 and higher margins aided by better product mix. FY22 EV of Rs316bn was ~4% below our estimate due to higher negative mortality variances (excess mortality on account of Covid-19 second wave) and negative economic variances, driven by rising yields. Overall, IPRU reported an impressive performance in FY22 with APE growth of ~20% YoY and VNB growth of 33% YoY (see Exhibit 7).
- **Operating parameters broadly stable; no surprises from Covid-19:** Operating parameters, including persistency, product mix, and distribution mix (with decline in ICICI Bank's share largely taken care by other banks), were broadly stable. Management said that given the changes in the product mix and investment in distribution, the cost ratio was slightly elevated but it still remains one of the best in the industry. Covid-19 Omicron wave did not have any impact on claims; however, management attributed some loss of productivity in January to the very high infectivity caused by the Omicron variant.
- **Management reiterates guidance of doubling FY19 VNB by FY23:** Management sounded confident of delivering 2x FY19 VNB by FY23. In FY19-22, the company delivered 1.63x VNB growth, led mainly by 64% growth in VNB margins (17% to 28%) though APE was down by 1%. With relatively limited room for margin expansion, the heavy-lifting part of VNB growth in FY23 has to be done by APE growth, which management is confident about due to the company's wide range of product offerings and distribution channels that are starting to deliver, including the ICICI Bank channel that has likely bottomed out. We estimate FY23 VNB of Rs25bn to be ~1.9x of FY19 VNB.
- **Varied interplay of product mix and distribution mix mean flat margins in FY23:** FY22 margin outcome for IPRU was driven by lower margins in ULIP with expenses jumping from the suppressed levels in FY21, protection margin declining due to increased Group Term and reduced Retail Protection in the product mix. In addition, the high share of non-par in non-linked products also boosted margins. Going forward, a likely recovery in retail protection should improve margins, but ROP products should dilute it a bit and any changes in par-non-par mix toward par should also dilute margins. Against this backdrop, we expect FY23 margins to be broadly in line with FY22.
- **Reiterate Buy; increase TP to Rs660, implying FY23E P/EV of 2.7x:** To reflect FY22 development and management commentary, we have tweaked our estimates, leading to a minor increase in VNB margins and absolute VNB and a slight reduction in EV (Exhibit 10). Driven by these tweaks in estimates and the rollover to Jun-23E from Mar-23E, our TP increases to Rs660 from Rs620, with an implied FY23 P/EV of 2.7x (Exhibit 8, 9). We reiterate our Buy rating on the stock at FY23E P/EV of ~2.2x. The valuation looks attractive, with a return of topline growth remaining the key for a re-rating.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Insurance \(Page 6\)](#)

### Financial Snapshot (Consolidated)

| Y/E March (Rs bn)                   | FY21  | FY22  | FY23E | FY24E | FY25E |
|-------------------------------------|-------|-------|-------|-------|-------|
| Annualised Premium Equivalent (APE) | 64.6  | 77.3  | 88.5  | 100.1 | 113.3 |
| New Business Value (NBV)            | 16.2  | 21.6  | 25.0  | 28.9  | 33.1  |
| NBV Margin (% of APE)               | 25.1  | 28.0  | 28.3  | 28.9  | 29.2  |
| Embedded Value                      | 291.1 | 316.3 | 356.4 | 405.0 | 461.1 |
| Embedded Value Operating Profit     | 35    | 32    | 49    | 55    | 63    |
| Operating RoEV (%)                  | 15.2  | 11.0  | 15.4  | 15.6  | 15.6  |
| EVPS (Rs)                           | 203   | 220   | 248   | 282   | 321   |
| EPS (Rs)                            | 6.69  | 5.25  | 8.15  | 10.15 | 12.37 |
| BVPS (Rs)                           | 50.2  | 63.4  | 63.7  | 69.4  | 75.5  |
| P/EV (x)                            | 2.7   | 2.5   | 2.2   | 1.9   | 1.7   |

Source: Company, Emkay Research

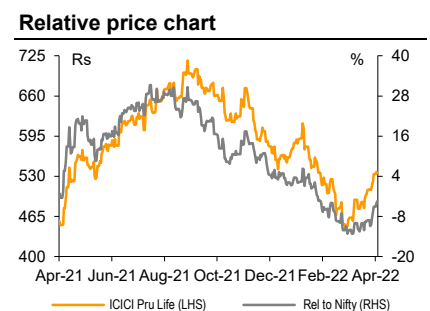
|                            |     |
|----------------------------|-----|
| <b>Change in Estimates</b> |     |
| EPS Chg FY22E/FY23E (%)    | -/  |
| Target Price change (%)    | NA  |
| Target Period (Months)     | 12  |
| Previous Reco              | BUY |

|                           |              |              |
|---------------------------|--------------|--------------|
| <b>Emkay vs Consensus</b> |              |              |
| <b>EPS Estimates</b>      |              |              |
|                           | <b>FY22E</b> | <b>FY23E</b> |
| Emkay                     | -            | -            |
| Consensus                 | 9.2          | 10.3         |
| Mean Consensus TP (12M)   | Rs 706       |              |

|                              |             |
|------------------------------|-------------|
| <b>Stock Details</b>         |             |
| Bloomberg Code               | IPRU IN     |
| Face Value (Rs)              | 10          |
| Shares outstanding (mn)      | 1,437       |
| 52 Week H/L                  | 725 / 430   |
| M Cap (Rs bn/USD bn)         | 778 / 10.21 |
| Daily Avg Volume (nos.)      | 1,778,633   |
| Daily Avg Turnover (US\$ mn) | 11.9        |

|                                     |       |
|-------------------------------------|-------|
| <b>Shareholding Pattern Dec '21</b> |       |
| Promoters                           | 73.4% |
| FIIIs                               | 16.9% |
| DIIIs                               | 4.3%  |
| Public and Others                   | 5.4%  |

|                          |           |           |           |            |
|--------------------------|-----------|-----------|-----------|------------|
| <b>Price Performance</b> |           |           |           |            |
| (%)                      | <b>1M</b> | <b>3M</b> | <b>6M</b> | <b>12M</b> |
| <b>Absolute</b>          | 17        | (8)       | (18)      | 18         |
| <b>Rel. to Nifty</b>     | 11        | (4)       | (14)      | (2)        |



Source: Bloomberg

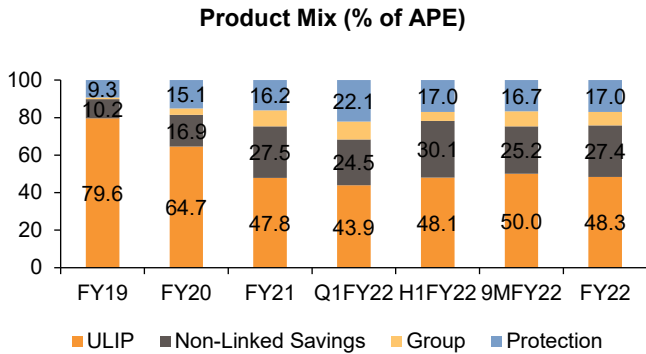
This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

**Avinash Singh**  
avinash.singh@emkayglobal.com  
+91 22 6612 1327

**Mahek Shah**  
mahek.shah@emkayglobal.com  
+91 22 6612 1218

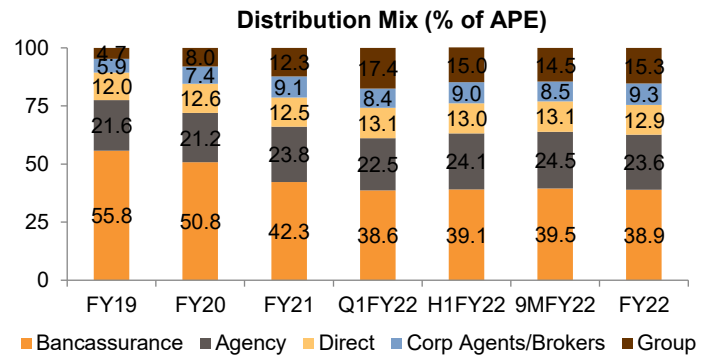
## Story in Charts

**Exhibit 1: Broadly stable product mix amid slower retail protection growth**



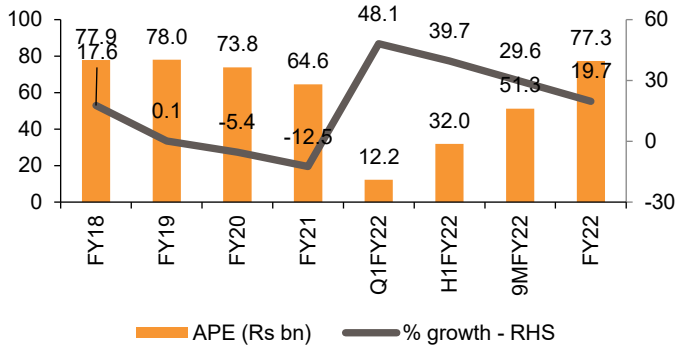
Source: Company, Emkay Research

**Exhibit 2: Focus on maintaining balanced distribution mix**



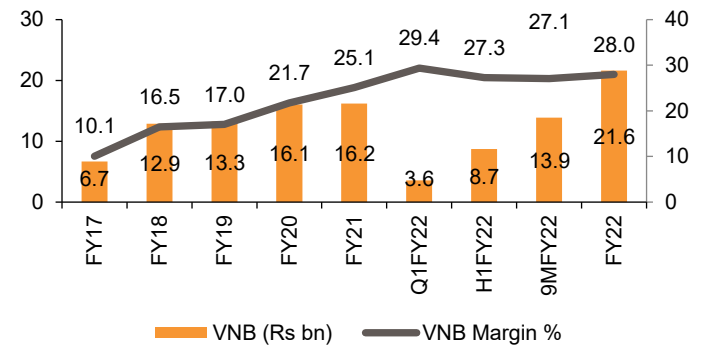
Source: Company, Emkay Research

**Exhibit 3: As favorable base effect wanes, APE growth is gradually moderating**



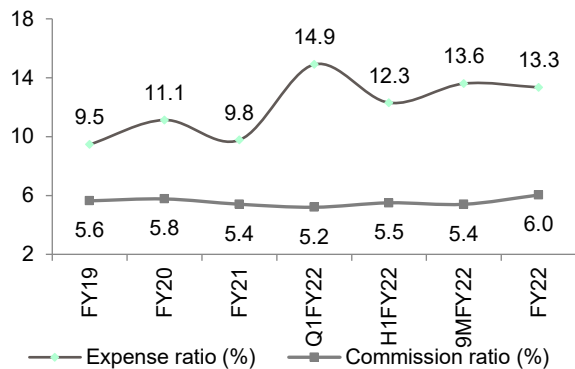
Source: Company, Emkay Research

**Exhibit 4: Higher non-par in non-linked savings lifted up the margin slightly**



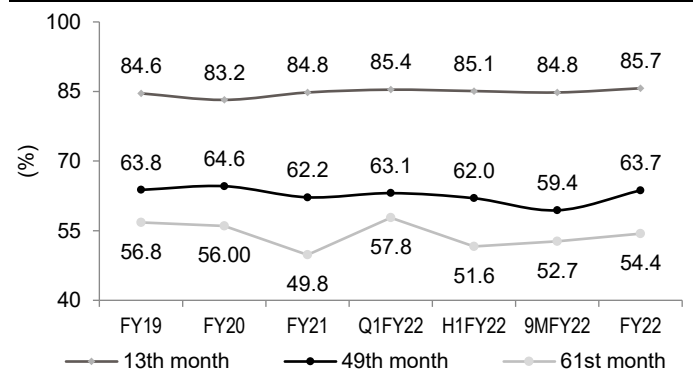
Source: Company, Emkay Research

**Exhibit 5: Elevated expense ratio due to higher advertising spends and employee cost**



Source: Company, Emkay Research

**Exhibit 6: 13M persistency stabilizes at ~85%**



Source: Company, Emkay Research

## Exhibit 7: FY22/Q4FY22 key financials

| in Rs bn except %                          | FY22        | FY21        | %yoy           | 4QFY22      | 4QFY21      | %yoy           | FY21        | FY20        | %yoy           |
|--|-------------|-------------|----------------|-------------|-------------|----------------|-------------|-------------|----------------|
| <b>Annualized Premium Equivalent (APE)</b> | <b>77.3</b> | <b>64.6</b> | <b>19.7</b>    | <b>26.1</b> | <b>25.1</b> | <b>4.0</b>     | <b>64.6</b> | <b>73.8</b> | <b>-12.5</b>   |
| --o/w Savings                              | 64.2        | 54.2        | 18.5           | 21.5        | 21.7        | -0.6           | 54.2        | 62.7        | -13.6          |
| --o/w Protection                           | 13.1        | 10.5        | 25.5           | 4.6         | 3.4         | 33.2           | 10.5        | 11.2        | -6.3           |
| Protection APE (% of total APE)            | 17.0        | 16.2        | 0.8ppts        | 17.5        | 13.7        | 3.8ppts        | 16.2        | 15.1        | 1.1ppts        |
| <b>Value of New Business</b>               | <b>21.6</b> | <b>16.2</b> | <b>33.4</b>    | <b>7.8</b>  | <b>5.9</b>  | <b>31.1</b>    | <b>16.2</b> | <b>16.1</b> | <b>1.0</b>     |
| <b>New Business Margin (%)</b>             | <b>28.0</b> | <b>25.1</b> | <b>2.9ppts</b> | <b>29.7</b> | <b>23.6</b> | <b>6.2ppts</b> | <b>25.1</b> | <b>21.7</b> | <b>3.3ppts</b> |
| Embedded Value                             | 316.3       | 291.1       | 8.7            | 316.3       | 291.1       | 8.7            | 291.1       | 230.3       | 26.4           |
| Total New Business Premium                 | 155.0       | 132.3       | 17.2           | 49.1        | 51.9        | -5.4           | 132.3       | 124.9       | 5.9            |
| Renewal premium                            | 219.6       | 225.1       | -2.4           | 68.0        | 69.1        | -1.6           | 225.1       | 209.4       | 7.5            |
| Gross written premium                      | 374.6       | 357.3       | 4.8            | 117.1       | 121.0       | -3.2           | 357.3       | 334.3       | 6.9            |
| <b>PAT</b>                                 | <b>7.5</b>  | <b>9.6</b>  | <b>-21.5</b>   | <b>1.8</b>  | <b>0.6</b>  | <b>189.5</b>   | <b>9.6</b>  | <b>10.7</b> | <b>-10.2</b>   |
| AUM  | 2,405       | 2,142       | 12.3           | 2,405       | 2,142       | 12.3           | 2,142       | 1,530       | 40.0           |
| SH Equity                                  | 91.6        | 91.2        | 0.5            | 91.6        | 91.2        | 0.5            | 91.2        | 72.2        | 26.3           |
| 13th month persistency (%)                 | 85.7        | 84.8        | 0.9ppts        |             |             |                | 84.8        | 83.2        | 1.6ppts        |
| 49th month persistency (%)                 | 63.7        | 62.2        | 1.5ppts        |             |             |                | 62.2        | 64.6        | -2.4ppts       |
| 61st month persistency (%)                 | 54.4        | 49.8        | 4.6ppts        |             |             |                | 49.8        | 56.0        | -6.2ppts       |
| Solvency ratio (%)                         | 204.5       | 216.8       | -12ppts        | 204.5       | 216.8       | -12ppts        | 216.8       | 194.1       | 23ppts         |

## Exhibit 8: Appraisal value method valuation of IPRU Life

| Parameter (Rs bn)                        | Value      |
|--|------------|
| FY23-38e APE CAGR                        | 9.5%       |
| FY23-38e VNB CAGR                        | 9.7%       |
| Terminal growth rate                     | 4.3%       |
| Cost of Equity                           | 12.5%      |
| FY23 EV                                  | 356        |
| Present value of future new business     | 564        |
| Appraisal value - Mar- 23                | 924        |
| Share count (mn)                         | 1,437      |
| Appraisal value per share (Rs.) - Mar-23 | 643        |
| <b>Price target (Rs.) - Jun-23</b>       | <b>660</b> |

Source: Emkay research

## Exhibit 9: Implied valuation multiples of IPRU Life

| Target multiple on FY23 numbers                 | 660        |
|---|------------|
| P/EV  | 2.7x       |
| RoEV  | 15.4       |
| P/Op. EV Profit                                 | 19.5x      |
| Implied FY24e VNB multiple                      | 19.5x      |
| <b>Current price multiple on FY23 estimates</b> | <b>541</b> |
| P/EV  | 2.2x       |
| RoEV (%)  | 15.4       |
| P/EVOP  | 16.0x      |
| Implied FY24e VNB multiple                      | 14.6x      |

Source: Emkay research

## Exhibit 10: Changes in Estimates

| Rs mn          | Old      |          |       | Revised  |          |          | % Change |         |       |
|----------------|----------|----------|-------|----------|----------|----------|----------|---------|-------|
|                | FY23E    | FY24E    | FY25E | FY23E    | FY24E    | FY25E    | FY23E    | FY24E   | FY25E |
| APE            | 85,996   | 97,426   | N.A.  | 88,462   | 1,00,101 | 1,13,341 | 2.9      | 2.7     | N.M.  |
| VNB            | 23,252   | 26,437   | N.A.  | 25,033   | 28,902   | 33,139   | 7.7      | 9.3     | N.M.  |
| VNB Margin (%) | 27.0     | 27.1     | N.A.  | 28.3     | 28.9     | 29.2     | 1.3ppts  | 1.7ppts | N.M.  |
| EVOP           | 48,254   | 54,465   | N.A.  | 48,688   | 55,434   | 63,153   | 0.9      | 1.8     | N.M.  |
| EV             | 3,71,176 | 4,18,738 | N.A.  | 3,56,424 | 4,05,024 | 4,61,070 | -4.0     | -3.3    | N.M.  |
| PAT            | 13,658   | 17,256   | N.A.  | 11,713   | 14,586   | 17,766   | -14.2    | -15.5   | N.M.  |

Source: Company, Emkay Research

**Exhibit 11: Key financials**

| Y/E March (Rs mn)                                       | 2020             | 2021             | 2022             | 2023E            | 2024E            | 2025E            |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Policyholders' account</b>                           |                  |                  |                  |                  |                  |                  |
| Gross written premium                                   | 334,307          | 357,328          | 374,580          | 409,093          | 455,602          | 511,603          |
| Net earned premium                                      | 328,790          | 349,733          | 363,213          | 395,656          | 440,637          | 494,799          |
| Total revenue   | 219,395          | 840,791          | 635,645          | 587,721          | 625,422          | 697,721          |
| Commission expense                                      | 15,860           | 15,002           | 16,729           | 18,223           | 20,295           | 22,790           |
| Operating expenses                                      | 28,469           | 26,883           | 36,730           | 36,054           | 40,153           | 45,088           |
| Surplus/Deficit   | 21,967           | 21,053           | 21,904           | 25,116           | 23,565           | 23,988           |
| <b>Shareholders' account</b>                            |                  |                  |                  |                  |                  |                  |
| Transfer from policyholders' account                    | 19,887           | 19,849           | 21,602           | 23,616           | 22,565           | 22,987           |
| Investment income                                       | 6,628            | 7,709            | 10,143           | 3,107            | 3,416            | 3,752            |
| Expenses  | 15,855           | 16,795           | 23,916           | 14,129           | 10,297           | 7,635            |
| Profit before tax                                       | 10,670           | 10,774           | 7,948            | 12,594           | 15,684           | 19,103           |
| Tax expense   | 0                | 1,213            | 356              | 882              | 1,098            | 1,337            |
| <b>Profit after tax</b>                                 | <b>10,670</b>    | <b>9,562</b>     | <b>7,592</b>     | <b>11,713</b>    | <b>14,586</b>    | <b>17,766</b>    |
| <b>Balance Sheet</b>                                    |                  |                  |                  |                  |                  |                  |
| <b>Sources of Funds</b>                                 |                  |                  |                  |                  |                  |                  |
| Shareholders' Funds                                     | 72,125           | 91,093           | 91,580           | 99,779           | 108,530          | 119,190          |
| Policyholders' Funds: Insurance reserves and provisions | 1,442,536        | 2,030,269        | 2,286,439        | 2,523,386        | 2,765,197        | 3,042,462        |
| <b>Total</b>  | <b>1,526,987</b> | <b>2,134,893</b> | <b>2,391,852</b> | <b>2,638,381</b> | <b>2,890,466</b> | <b>3,180,064</b> |
| <b>Application of Funds</b>                             |                  |                  |                  |                  |                  |                  |
| Shareholders' Investments                               | 74,152           | 100,807          | 98,469           | 108,673          | 119,087          | 131,028          |
| Policyholders' Investments                              | 467,503          | 635,726          | 773,880          | 854,078          | 935,923          | 1,029,768        |
| Assets Held to Cover Linked Liabilities                 | 970,850          | 1,385,491        | 1,508,663        | 1,665,008        | 1,824,563        | 2,007,511        |
| <b>Total</b>  | <b>1,526,987</b> | <b>2,134,887</b> | <b>2,391,852</b> | <b>2,638,381</b> | <b>2,890,466</b> | <b>3,180,064</b> |
| <b>Embedded Value Account</b>                           |                  |                  |                  |                  |                  |                  |
| Embedded Value  | 230,300          | 291,060          | 316,250          | 356,424          | 405,024          | 461,070          |
| --o/w Adjusted Net Worth                                | 78,430           | 95,220           | 83,600           | 104,779          | 113,530          | 124,190          |
| --o/w Value-in-Force                                    | 151,870          | 195,840          | 232,650          | 251,646          | 291,494          | 336,880          |
| Annualized Premium Equivalent (APE)                     | 73,810           | 64,620           | 77,330           | 88,462           | 100,101          | 113,341          |
| New Business value                                      | 16,050           | 16,210           | 21,630           | 25,033           | 28,902           | 33,139           |
| New Business Margin (%)                                 | 21.7             | 25.1             | 28.0             | 28.3             | 28.9             | 29.2             |
| EV Operating Profit                                     | 32,890           | 35,060           | 31,920           | 48,688           | 55,434           | 63,153           |
| Operating RoEV (%)                                      | 15.2             | 15.2             | 11.0             | 15.4             | 15.6             | 15.6             |
| <b>Per share data, in Rs</b>                            |                  |                  |                  |                  |                  |                  |
| EPS   | 7.43             | 6.69             | 5.25             | 8.15             | 10.15            | 12.37            |
| DPS   | 2.3              | 0.0              | 2.0              | 2.4              | 4.1              | 4.9              |
| EVPS  | 160.4            | 202.7            | 220.0            | 248.0            | 281.8            | 320.8            |
| BVPS  | 50.2             | 63.4             | 63.7             | 69.4             | 75.5             | 82.9             |
| EV Op. Profit per share                                 | 22.9             | 24.4             | 22.2             | 33.9             | 38.6             | 44.0             |
| <b>Key Ratio</b>  |                  |                  |                  |                  |                  |                  |
| Return on Equity (%)                                    | 15.0             | 11.7             | 8.3              | 12.2             | 14.0             | 15.6             |
| Commission expense/TWRP (%)                             | 5.8              | 5.4              | 6.0              | 6.0              | 6.1              | 6.3              |
| Operating expenses/TWRP (%)                             | 11.1             | 9.8              | 13.3             | 11.8             | 12.1             | 12.4             |
| Total expense (% of TWRP)                               | 16.9             | 15.2             | 19.4             | 17.7             | 18.2             | 18.7             |
| Total expense (% of Avg AUM)                            | 2.83             | 2.29             | 2.36             | 2.16             | 2.18             | 0.00             |
| Conservation ratio (%)                                  | 76.0             | 82.0             | 79.3             | 81.3             | 82.3             | 82.3             |

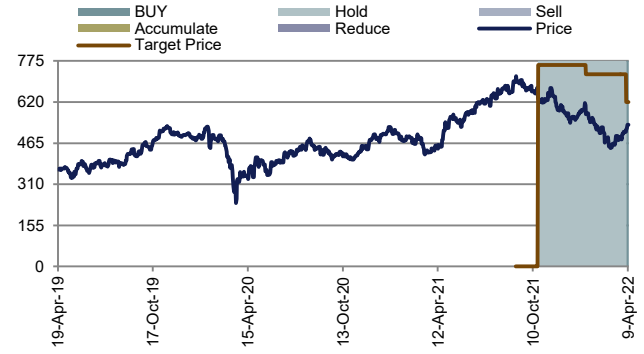
Source: Company, Emkay Research

**RECOMMENDATION HISTORY TABLE**

| Date      | Closing Price | TP  | Period (months) | Rating | Analyst       |
|-----------|---------------|-----|-----------------|--------|---------------|
| 6-Apr-22  | 517           | 620 | 12m             | Buy    | Avinash Singh |
| 8-Feb-22  | 516           | 725 | 12m             | Hold   | Avinash Singh |
| 19-Jan-22 | 574           | 725 | 12m             | Hold   | Avinash Singh |
| 18-Jan-22 | 608           | 760 | 12m             | Hold   | Avinash Singh |
| 7-Dec-21  | 587           | 760 | 12m             | Hold   | Avinash Singh |
| 9-Nov-21  | 651           | 760 | 12m             | Hold   | Avinash Singh |
| 20-Oct-21 | 632           | 760 | 12m             | Hold   | Avinash Singh |
| 7-Sep-21  | 702           | -   | 12m             | UR     | Avinash Singh |

Source: Company, Emkay Research

**RECOMMENDATION HISTORY CHART**



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – BFSI-Insurance



### Analyst: Avinash Singh

#### Contact Details

avinash.singh@emkayglobal.com  
+91 22 66121327

#### Sector

Insurance and Non-lending Financials

#### Analyst bio

Avinash Singh holds a PGDM and CFA. He has over 13 years of experience, including 10 years of research experience on the sell side. His team currently covers four insurance and one asset management stocks.

### EAP sector portfolio

| Company Name          | BSE200 Weight | EAP Weight  | OW/UW (%) | OW/UW (bps) | EAP Weight based on Current NAV | Change vs last published EAP (bps) |
|-----------------------|---------------|-------------|-----------|-------------|---------------------------------|------------------------------------|
| <b>BFSI-Insurance</b> | <b>1.37</b>   | <b>1.37</b> | <b>0%</b> | <b>0</b>    | <b>100.00</b>                   |                                    |
| HDFC Life Insurance   | 0.53          | 0.56        | 5%        | 3           | 40.47                           | 0                                  |
| ICICI Pru Life        | 0.20          | 0.07        | -65%      | -13         | 5.03                            | 0                                  |
| Max Financial         | 0.17          | 0.20        | 18%       | 3           | 14.22                           | 0                                  |
| SBI Life              | 0.48          | 0.55        | 15%       | 7           | 40.29                           | 0                                  |
| <b>Cash</b>           | <b>0.00</b>   | <b>0.00</b> | <b>NA</b> | <b>0</b>    | <b>0.00</b>                     | <b>0</b>                           |

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

### Sector portfolio NAV

|   | Base     |           |           |           |           |           | Latest |
|---|----------|-----------|-----------|-----------|-----------|-----------|--------|
|   | 1-Apr-19 | 12-Apr-21 | 12-Oct-21 | 12-Jan-22 | 11-Mar-22 | 12-Apr-22 |        |
| EAP - BFSI-Insurance                    | 100.0    | 153.9     | 186.1     | 183.3     | 146.6     | 154.3     |        |
| BSE200 Neutral Weighted Portfolio (ETF) | 100.0    | 154.3     | 187.1     | 183.9     | 146.3     | 154.1     |        |

\*Performance measurement base date 1<sup>st</sup> April 2019

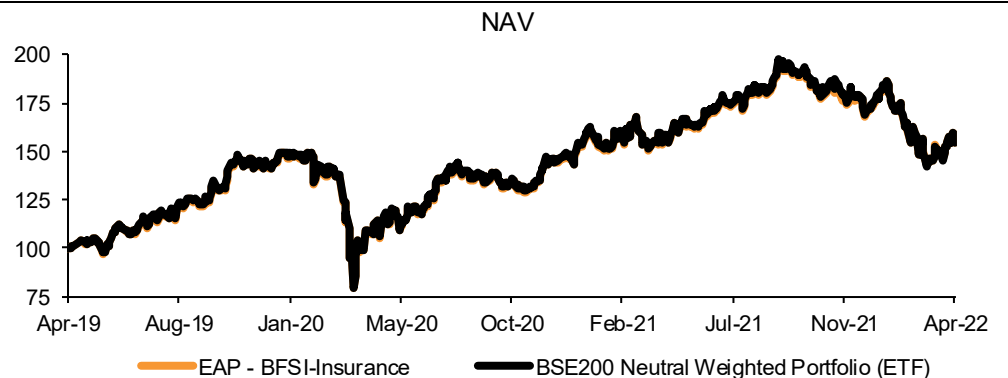
Source: Emkay Research

### Price Performance (%)

|   | 1m   | 3m     | 6m     | 12m   |
|---|------|--------|--------|-------|
| EAP - BFSI-Insurance                    | 5.3% | -15.8% | -17.1% | 0.3%  |
| BSE200 Neutral Weighted Portfolio (ETF) | 5.3% | -16.2% | -17.7% | -0.2% |

Source: Emkay Research

### NAV chart



Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”



## Emkay Rating Distribution

| Ratings | Expected Return within the next 12-18 months. |
|---------|---|
| BUY     | Over 15%                                      |
| HOLD    | Between -5% to 15%                            |
| SELL    | Below -5%                                     |

Completed Date: 17 Apr 2022 21:22:58 (SGT)

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com