Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

ICICI Prudential Life Insurance Company Ltd

Robust Q4; multiple growth drivers ahead

Stock Update

Result Update

Insurance	Sharekhan code: ICICIPRULI
Reco/View: Buy ↔	CMP: **Rs. 541**
	Price Target: **Rs. 660** ↓

↑ 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 Feb 08, 2022

Low Risk

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

Source: Morningstar

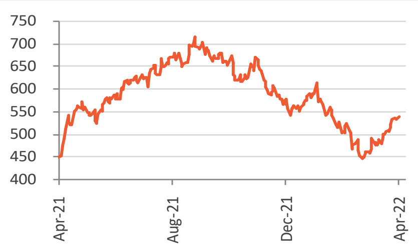
Company details

Market cap:	Rs. 77,737 cr
52-week high/low:	Rs. 725/ 430
NSE volume: (No of shares)	14.7 lakh
BSE code:	540133
NSE code:	ICICIPRULI
Free float: (No of shares)	38.2 cr

Shareholding (%)

Promoters	73.4
FII	16.4
DII	4.7
Others	5.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16.7	-8.4	-17.0	9.8
Relative to Sensex	13.5	-3.7	-11.5	-10.4

Sharekhan Research, Bloomberg

Summary

- ICICI Prudential Life Insurances APE grew by 4% y-o-y in Q4FY22 and ~20% y-o-y in FY22. Annuity and protection new business premiums grew by 29% y-o-y and 35% y-o-y, respectively in FY22.
- ULIPs had a steady ride, with the segment clocking a ~21% y-o-y growth amid buoyant equity markets. VNB recorded robust growth of 33% y-o-y in FY22 to Rs. 2,163 crore, with VNB margins of 28%, up by 290 bps y-o-y, primarily on account of better product mix.
- ROEV was at 11% post mortality in FY22, (was at 15% ex. mortality & morbidity variance), declined by ~240 bps, a negative surprise due to higher mortality variance.
- The stock price has corrected by 25% from highs of Rs. 725 amid the pandemic scenario. However, we believe with the return to normalcy, the stock offers a good buying opportunity at the current levels. The stock trades at 2.1x/1.8x its FY2023E/FY2024E EVPS. We maintain a Buy with a revised PT of Rs.660.

ICICI Prudential Life Insurance (IPRU) reported a PAT of Rs. 187 crore in Q4FY22 versus our estimate of Rs. 300 crore, down by ~40% q-o-q and up by ~200% y-o-y. For FY22, its PAT was at Rs. 759 crore versus Rs. 956 crore in FY21. Its new business premium grew by ~15% y-o-y in FY22 while it was down by ~7% y-o-y in Q4FY22. The value of new business (VNB) grew by ~33% y-o-y in FY22 to Rs. 2,163 crore. This was aided by robust growth in new business sum assured (~25% y-o-y) and APE (~20% y-o-y). Likewise, VNB margins expanded to 28% vs. 25.1% in FY21, aided by a better product mix with higher share of annuity and non-par savings products. The management guidance to double FY19 absolute VNB (Rs. 1,328 crore) by FY23E, through better product mix is likely to drive growth going ahead coupled with strong distribution capabilities. With the company's focus on the diversification of product mix, share of Protection in the mix improved to 17% versus 16.2 in FY21. The share of ULIPs stood at 48.3% in FY22 versus 47.8% in FY21. Along with diversification of product mix, the company diversified its distribution mix as well with non-bancassurance channels improved to 61% in FY2022. Its product mix based on APE comprises of linked savings at 48% traditional savings at 28%, protection at 17%, group savings at 3% annuity at 4%. It declared a final dividend of Rs. 0.55 per equity share for FY2022. The regular and limited pay persistency improved by ~70-360 bps in 11MFY22 across all buckets. The 13th month persistency improved by 90 bps to 85.7%. While 61st month persistency was down by 390 bps to 54.4% in 11MFY22. The return on embedded value net of tax (ROEV) was at 11% post mortality in FY22, (was at 15% ex. mortality & morbidity variance), declined by ~240 bps, due to higher mortality variance.

Key positives

- The management was optimistic on the growth of the retail term protection segment thereby indicating a likely revival 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 by the reinsurers. Further, the price hike in the retail term segment was a without affecting any VNB margins.
- The company holds Rs. 24 crore as provision for future COVID-19 claims in FY22 versus Rs. 332 crore in FY21.

Key negatives

- Total COVID-19 claims were at Rs. 2,107 crore in FY2022 versus Rs. 354 crore in FY2021.

Management Commentary

- The management affirmed its stated objective to focus on the absolute VNB growth. It is confident and well on track to achieve its guidance to double FY19 VNB by FY23E, through better product mix which is likely to drive growth going ahead coupled with strong distribution capabilities.
- Additionally, it was optimistic on the growth of retail-term protection segment although there was price rise by the re-insurers and indicated a likely turnaround in this highly profitable category going ahead.
- The company introduced new products in linked, non-PAR and protection categories which have been received well.
- It intends to focus on retail protection business, expansion of annuity business, agency distribution channel, direct channel and outperform VNB industry growth in the medium term.

Our Call

Valuation – We maintain a Buy rating on the stock with a revised PT of Rs. 660: IPRU currently trades at 2.1x/1.8x its FY2023E/FY2024E EVPS, which we believe is reasonable, given the quality of the franchise and robust growth trajectory. Additionally, the stock price has corrected by 25% from the highs of Rs. 725, given the pandemic scenario. However, we believe with the return to normalcy, the stock offers a good buying opportunity at the current levels. Further, its 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 have fine-tuned our estimates and our target multiple. We maintain Buy with a revised PT of Rs. 660.

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	FY22	FY23E	FY24E
APE	6,462	7,733	9,202	10,997
VNB	1,621	2,163	2,509	3,011
VNB Margin (%)	25.1	28.0	27.3	27.4
EV	29,106	31,625	37,602	42,866
New Business Premium	13,226	15,502	19,068	23,263
PAT	956	759	1,268	1,496
EPS (Rs)	6.7	5.3	8.8	10.4
ROE (%)	10.5	8.3	12.8	13.4
P/EV (x)	2.7	2.5	2.1	1.8
P/BV (x)	8.4	8.4	7.2	6.6

Source: Company; Sharekhan estimates

Results (Consolidated) Rs cr

Particulars	Q4FY22	Q4FY21	Q3FY22	y-o-y (%)	q-o-q (%)
NBP	4,908	5,188	3,899	-5.4	25.9
Net Premium	11,359	11,879	9,074	-4.4	25.2
Income from investments	1,476	7,143	737	-79.3	100.3
Other income	33	23	29	43.7	12.6
Total Income	13,846	19,639	9,865	-29.5	40.3
Net Commission	556	558	421	-0.2	32.2
Operating Expenses	1,299	854	838	52.1	55.0
Provision for taxes	93	60	47	55.3	-
Surplus/(Deficit)	1,144	-323	409	-454.0	179.8
PBT	222	112	311	97.9	-28.4
PAT	187	63	311	199.0	-39.8

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% from FY2002 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 capita income 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; on sustainable growth path

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 top line 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 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 - We maintain a Buy rating on the stock with a revised PT of Rs. 660

IPRU currently trades at 2.1x/1.8x its FY2023E/FY2024E EVPS, which we believe is reasonable, given the quality of the franchise and robust growth trajectory. Additionally, the stock price has corrected by 25% from the highs of Rs. 725, given the pandemic scenario. However, we believe with the return to normalcy, the stock offers a good buying opportunity at the current levels. Further, its 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 have fine-tuned our estimates and our target multiple. We maintain Buy with a revised PT of Rs. 660.

Peer Comparison

Companies	CMP	MCAP	P/BV(x)		P/EV(x)		RoE (%)	
	Rs/Share	(Rs Cr)	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
ICICI Prudential Life Insurance	541	77,737	2.5	2.1	2.5	2.1	8.3	12.8
HDFC Life Insurance Company	565	119,268	10.2	8.9	3.2	2.7	17.5	17.3

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 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-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, 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	Compassvale Investments Pte Ltd	2.0
2	BlackRock Inc	1.6
3	Baillie Gifford & Co	1.2
4	Republic of Singapore	1.0
5	Touchstone Advisors	1.0
6	Vanguard Group Inc/The	0.8
7	UTI Asset Management Co	0.5
8	Franklin Resources Inc	0.3
9	Bessemer Group Inc	0.3
10	Credit Agricole Group	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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