KRChoksey | Institutional

ICICI Prudential Life Insurance Ltd.

RESULT UPDATE

19th July 2022

ICICI Prudential Life Insurance Ltd.

VNB margin expansion led by increased share of high margin products

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 523	INR 680	30.0%	INR 748,285	BUY	Life Insurance

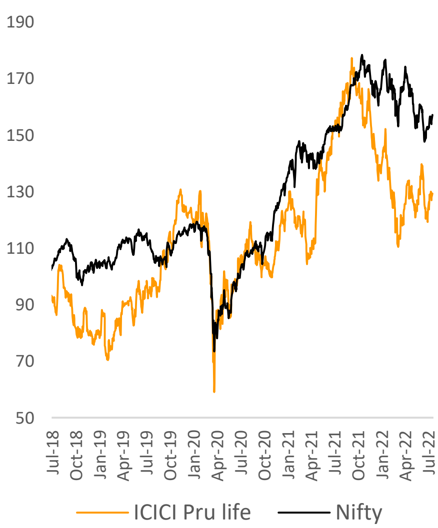
Result Highlights of Q1FY23:

- In Q1FY23, the GWP grew 5.7% YoY while declined -38.0% QoQ owing to sequential fall in across all the segments. NBP de-grew 31.3% QoQ while grew 23.4% YoY in Q1FY23.
- APE for Q1FY23 stood at INR 15,200 Mn, an increase of 24.7% YoY while declined 41.7% QoQ.
- The VNB for Q1FY23 grew by 31.6% YoY to INR 4,710 Mn. The VNB margin for Q1FY23 stood at 31.0%, up from 29.4% for Q1FY22.
- The solvency ratio was 204% against the regulatory requirement of 150%. The total assets under management of the company were INR 2,300.7 Bn as on June 30, 2022, a growth of 3.1% over INR 2,231.7 bn as on June 30, 2021.

MARKET DATA

Shares outs (Mn)	1,437
Equity Cap (INR Mn)	90,532
Mkt Cap (INR Mn)	748,285
52 Wk H/L (INR)	724/430
Volume Avg (3m K)	1,448
Face Value (INR)	10
Bloomberg Code	IPRU : IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	54,521
NIFTY	16,279

KEY FINANCIALS

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
GWP	3,34,307	3,57,328	3,74,580	4,16,889	4,74,291
PAT	10,685	9,601	7,541	9,579	10,538
EPS (INR/Share)	7.4	6.7	5.2	6.7	7.3
NBP-APE	73,810	59,911	77,330	83,221	1,00,098
VNB	16,050	16,210	21,630	25,382	31,030
VNB Margin (%)	21.8%	21.8%	28.0%	30.5%	31.0%
EVPS (INR/Share)	160.4	202.7	220.0	254.7	295.6

Source: Company, KRChoksey Research

Premium growth declined sequentially owing to lower growth in renewal premium: IPRU reported a Gross Written Premium growth of 5.7% YoY (-38.0% QoQ) at INR 72,647 Mn, led by healthy growth in New Business Premium (NBP). New business premium grew by 23.4% YoY (de-grew 31.3% QoQ) at INR 33,707 Mn in Q1FY23. The company continued to grow its APE by 24.7% YoY in Q1FY23 while declined sequentially owing to a high base of the prior quarter. The Annuity segment for the quarter stood at INR 580 Mn, registering a growth of 69% YoY in Q1FY23. The protection segment APE grew from INR 2,700 Bn to INR 3,300 Mn. IPRU continued to take advantage of the opportunity available in the group segment on group credit life products while it faced supply-side challenges in the retail protection segment. The linked savings business growth in Q1FY23 was moderated due to the market volatility. On the distribution channel mix, the bancassurance mix APE grew 12% YoY at INR 5,280 Mn, while the agency mix grew 25% YoY. The company's market share climbed to 15.8% for Q1FY23, up from 14.7% in FY21, achieving overall market leadership during the quarter. We expect the company is well positioned to capture the long-term structural play for the Protection business by improving its product and distribution mix. At the same time, retail protection will see gradual improvement supporting expansion in VNB margins going ahead.

VNB margins expanded led by increase in high margin products: The VNB for Q1FY23 grew by 31.6% YoY (de-grew -39.2% QoQ) to INR 4,710 Mn, with the VNB margin for Q1FY23 at 31.0%, an improvement of 127 bps/ 162 bps QoQ/YoY, respectively with increased contribution from Annuity and Protection segment and strong growth in APE on a yearly basis. The target of doubling the VNB by FY23E is on track, driven by a new product pipeline & a focus on increasing the share of the high-margin product.

Persistency improves across cohorts, cost ratio continued to be high: The 13th month persistency ratio has improved by 50 bps YoY to 85.5% as of June 30, 2022, while the 61st -month persistency ratio has improved to 55.7% as of June 30, 2022, an improvement of 490 bps/ 130 bps YoY/QoQ. The cost to total weighted received premium ratio stood at 23.8% for Q1FY23 as against 19.9% in Q1FY22. The higher expenses are also due to normalized business activities.

SHARE HOLDING PATTERN (%)

Particulars	Jun-22	Mar-22	Dec-21
Promoters	73.4	73.4	73.4
FIIs	16.4	16.4	16.9
DIIs	4.7	4.7	4.3
Others	5.5	5.5	5.4
Total	100.0	100.0	100.0

12.5%

GWP CAGR between FY22 and FY24E

19.8%

VNB CAGR between FY22 and FY24E

ICICI Prudential Life Insurance Ltd.

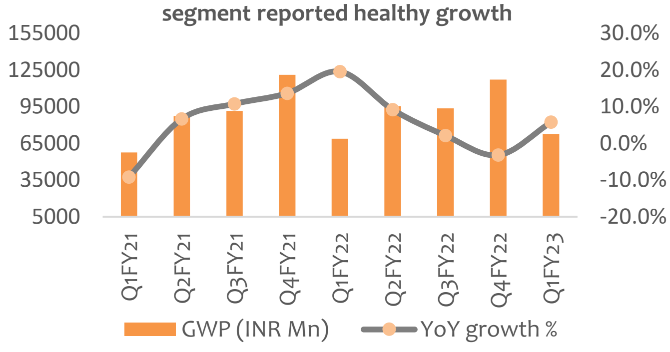
Key Concall Highlights:

- IPRU's solvency to substantially improve under a risk-based capital regime proposed by IRDAI Chairman.
- The regulator is also evaluating leveraging data on technology more and expects the industry to focus on enhancing awareness, serving the underserved, orderly market conduct and data security.
- Large net outflows by foreign institutional investors have caused significant volatility in the capital market, directly impacting the unit-linked business.
- While consumer preference for non-participating guaranteed saving products persists, increase in yields and domestic market will put pressure on this business segment given that it will become more challenging to compete with other category of savings' products in the market.
- IPRU continues to diversify its distribution mix through its focus on acquisition of new partners and investment in creation of new sourcing channels. In Q1FY23, the bancassurance channel share was 35% for the overall APE, within which share of banks other than ICICI Bank grew to 15%.
- The company continues to hold IBNR provisions of INR 0.24 Bn as of June 30, 2022.
- The mix of annuity in terms of new business received premium was about 18%. Its wholly-owned subsidiary ICICI Prudential Pension Fund Management Company Limited distributes products under the national pension system and is registered as a pension fund manager.
- IPRU will continue to invest further in data science and data analytics, which continue to be key to its strategy aiding the company to provide better value to its customers.
- It has a risk calibrated pricing methodology, reflecting the underlying risk which has been undertaken appropriately.

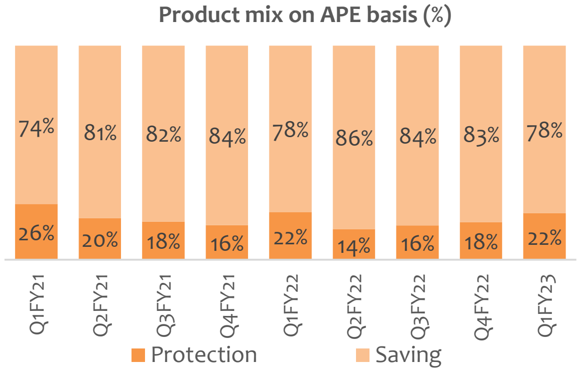
Valuation and view

IPRU's growth traction remained healthy YoY led by improving product mix. The Annuity and Protection segment delivered a stellar performance, while ULIPs suffered due to market volatility. VNB margins continued to expand during the quarter nearing its target of doubling the absolute VNB by end of FY23E. The company achieved an overall market leadership amongst its private peers. IPRU is well-poised to grab the long-term structural growth opportunity, given its strong market leadership. We expect GWP to grow at a CAGR of 12.5% over FY22-24E and margins at ~31% with increased share from the high-margin product segment & improving its customer base using new distribution partnerships. Since our last update, the ICICI Prudential Life Insurance share has corrected by ~3.9%. **We assign a 2.3x P/EV on FY24E EVPS of INR 295.6 and a VNB multiple of 24.0x to arrive at a weighted average Target Price of INR 680 per share (previously INR 772 per share) (50:50 weights on the P/EV and appraisal value methodology); indicating a 30.0% upside from the CMP. Accordingly, we re-iterate our "BUY" rating on the shares of ICICI Prudential Life Insurance Ltd.**

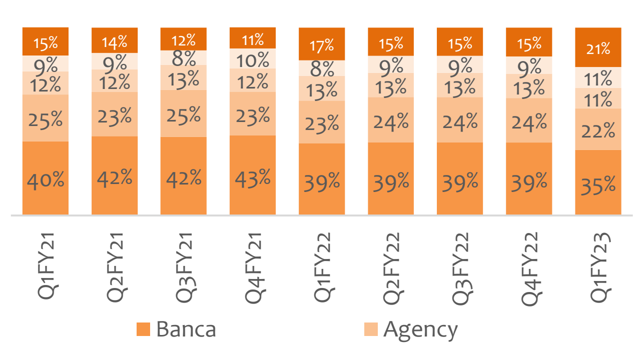
Gross Written Premium – Annuity & Protection segment reported healthy growth



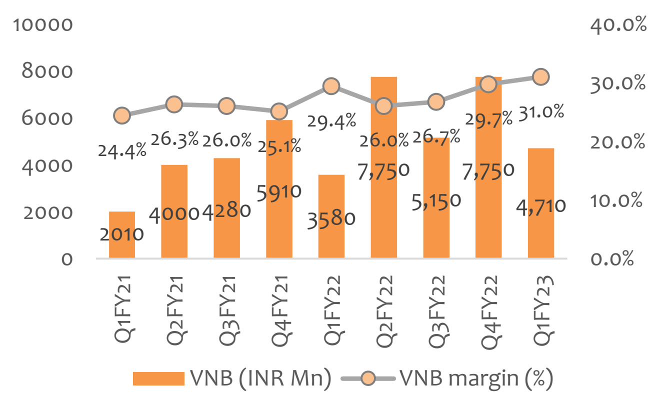
Product mix on APE basis (%)



Channel mix on APE basis (%)



Value of new business



Source: Company, KRChoksey Research

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ICICI Prudential Life Insurance Ltd.

KEY FINANCIALS

Exhibit 1: Revenue Account/Policy Holder's Account

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Gross premiums	3,34,307	3,57,328	3,74,580	4,16,889	4,74,291
Reinsurance ceded	5,520	7,595	11,367	8,338	9,486
Net premiums	3,28,787	3,49,734	3,63,213	4,08,551	4,64,806
Net income from investments	**-1,09,395**	**4,91,057**	**2,72,432**	**1,79,895**	**2,28,283**
Total income	2,19,393	8,40,791	6,35,645	5,88,446	6,93,088
Commission expenses	**15,860**	**15,002**	**16,729**	**25,013**	**28,457**
Operating expenses	28,469	26,883	36,730	47,942	54,544
Service tax on linked charges	6,534	6,546	6,914	7,593	8,136
Other expenses/provisions	19	238	281	250	250
Operating profit	**1,68,511**	**7,92,122**	**5,74,991**	**5,07,647**	**6,01,702**
Benefits paid (net)	1,94,506	2,26,409	2,93,588	1,84,724	2,37,927
Interim Bonuses Paid	2,132	0	0	0	0
Change in reserves	-50,569	5,43,241	2,57,838	2,97,237	3,35,878
Provisions	1,314	1,418	1,662	1,798	1,953
Surplus/(Deficit) After Tax	**21,128**	**21,054**	**21,904**	**23,888**	**25,944**

Source: Company, KRChoksey Research

Exhibit 2: Premium Schedule

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
First year premiums	65,078	51,872	59,655	71,586	85,903
Single premiums	59,797	80,389	95,367	1,16,348	1,41,945
New business premium (NBP)	**1,24,875**	**1,32,261**	**1,55,023**	**1,87,934**	**2,27,848**
NBP growth (%)	20%	6%	17%	21%	21%
Renewal premiums	**2,09,432**	**2,25,068**	**2,19,558**	**2,28,954**	**2,46,443**
Renewal premiums growth (%)	2%	7%	-2%	4%	8%
Total premiums	**3,34,307**	**3,57,328**	**3,74,580**	**4,16,889**	**4,74,291**
Total premium growth (%)	8%	7%	5%	11%	14%
NBP – APE	**73,810**	**59,911**	**77,330**	**83,221**	**1,00,098**
NBP - APE growth (%)	-5%	-19%	29%	8%	20%

Source: Company, KRChoksey Research

Exhibit 3: Profit & Loss Account/Shareholder's Account

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Transfer from Technical account	19,885	19,849	21,602	21,388	23,444
Income from investments & other income	6,600	7,690	10,136	8,278	9,107
Total income	26,485	27,538	31,738	29,665	32,550
Total expenses	15,799	16,724	23,833	19,582	21,458
PBT	**10,685**	**10,814**	**7,906**	**10,083**	**11,093**
Provision for tax	0	1,213	365	504	555
PAT	**10,685**	**9,601**	**7,541**	**9,579**	**10,538**

Source: Company, KRChoksey Research

ICICI Prudential Life Insurance Ltd.

Exhibit 4: Balance Sheet

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Sources of funds					
Share capital	14,358	14,360	14,373	14,373	14,373
Reserves and surplus	61,056	70,671	75,915	83,106	91,018
Fair value change account - net	-3,228	6,158	1,342	1,342	1,342
Shareholders' fund	**72,185**	**91,189**	**91,631**	**98,822**	**1,06,733**
Liabilities (Policyholder's Funds)					
Fair value change account - net	-2,525	29,935	28,275	31,842	35,982
Revaluation reserve-Investment property	656	687	680	765	865
Policy liabilities	4,73,556	6,02,156	7,36,822	8,29,790	9,37,663
Provision for linked liabilities	9,89,764	10,58,551	11,61,143	13,07,650	14,77,645
Credit/[debit] fair value change account	-1,09,397	2,19,153	2,44,271	2,75,092	3,10,854
Discontinued due to non-payment of premium	90,482	1,07,787	1,03,249	1,16,276	1,31,392
Sub-Total	**14,42,537**	**20,18,269**	**22,74,439**	**25,61,417**	**28,94,401**
Funds for future Appropriations	12,327	13,540	13,833	14,500	14,500
Total Sources of Funds	**15,27,049**	**21,35,003**	**23,91,903**	**26,96,997**	**30,40,786**
Application of Funds					
Investments					
- Shareholders	74,209	1,00,902	98,535	1,08,406	1,19,265
- Policyholders	4,67,503	6,35,726	7,73,880	8,51,268	9,36,395
Asset held to cover linked liabilities	9,70,850	13,85,491	15,08,663	16,59,529	18,25,482
Loans	4,631	6,628	9,401	10,000	10,000
Fixed assets - net block	4,776	4,572	4,872	4,756	4,756
Deferred tax asset	0	0	0	0	0
Net current assets	5,080	1,684	-3,449	63,038	1,44,888
Total Applications of Funds	**15,27,049**	**21,35,003**	**23,91,903**	**26,96,997**	**30,40,786**

Source: Company, KRChoksey Research

Exhibit 5: EV Calculation

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Opening EV	2,16,230	2,30,300	2,91,060	3,16,250	3,66,085
Unwind	17,250	16,610	20,850	22,770	26,358
VNB (or NBAP)	**16,050**	**16,210**	**21,630**	**25,382**	**31,030**
Operating variance	-410	2,240	-10,560	6,570	6,570
EV Operating Profit (EVOP)	**32,890**	**35,060**	**31,920**	**54,722**	**63,958**
Non-operating variance	-14,760	25,670	-4,370	-2,500	-2,500
EV Profit	**18,130**	**60,730**	**27,550**	**52,222**	**61,458**
Net capital injection	-4,050	30	-2,360	-2,388	-2,627
Closing EV	**2,30,310**	**2,91,060**	**3,16,250**	**3,66,085**	**4,24,916**

Source: Company, KRChoksey Research

Exhibit 6: Key Financials

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Total premium	3,34,307	3,57,328	3,74,580	4,16,889	4,74,291
Net premium earned	3,28,787	3,49,734	3,63,213	4,08,551	4,64,806
NBP-APE	73,810	59,911	77,330	83,221	1,00,098
Combined ratio (%)	13.3%	11.4%	14.3%	17.5%	17.5%
Surplus/(Deficit)	21,128	21,054	21,904	23,888	25,944
VNB margin (%)	21.8%	21.8%	28.0%	30.5%	31.0%
PAT	10,685	9,601	7,541	9,579	10,538
EPS (Rs.)	7.4	6.7	5.2	6.7	7.3
EVPS (Rs.)	160.4	202.7	220.0	254.7	295.6
RoEV (%)	15.2%	15.2%	11.0%	17.3%	17.5%
RoE (%)	15.0%	11.8%	8.2%	10.1%	10.3%

Source: Company, KRChoksey Research

ICICI Prudential Life Insurance Ltd.

ICICI PruLife Insurance			
Date	CMP (INR)	TP (INR)	Recommendation
19-Jul-22	521	680	BUY
18-Apr-22	542	772	BUY
19-Jan-22	574	772	BUY
20-Oct-21	636	772	BUY
31-Aug-21	660	679	HOLD
20-Apr-21	477	526	ACCUMULATE
17-Mar-21	444	526	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	**Upside**
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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