

Retail Equity Research

ICICI Prudential Life Insurance Co. Ltd.

Life Insurance

BSE CODE: 540133

NSE CODE: ICICIPRULI

Bloomberg CODE: IPRU:IN

SENSEX: 59,107

BUY

 12 Months Investment period Rating as per Large Cap
CMP Rs. 508 TARGET Rs. 629 RETURN 24% ↑
 (Closing: 19-10-22)

KEY CHANGES:
TARGET ↓

RATING ↔

EARNINGS ↓

Value of new business growth provides heft

ICICI Prudential Life Insurance Co. Ltd. (IPRU), a joint venture between ICICI Bank and Prudential Corp. Holdings, offers life, health and pension products.

- The company's gross premium rose 3.8% YoY to Rs. 9,895cr in Q2FY23, mainly due to growth in non-linked savings and protection segments, along with continued expansion of partnerships with banks, and growth in agency and direct-to-consumer channels.
- Value of new business (VNB) rose 20.6% YoY in Q2FY23 to Rs. 6.2bn, driven by a balanced product mix. VNB margin expanded 300bps YoY to 31.0%, owing mainly by sale of high-margin products.
- IPRU has been continuously focusing on adding agencies and entering into partnerships, which should help boost its premiums. The management is also on track to double FY19 VNB by year-end, with improved cost management and business quality. Hence, we reiterate our BUY rating on the stock, with a rolled forward target price (TP) of Rs. 629 based on 2.2x FY24E embedded value (EV).

Premium growth led by a balanced product mix

IPRU's gross and net premiums marginally increased to Rs. 9,895cr (+3.8% YoY) and Rs. 9,581cr (+3.2% YoY), respectively, in Q2FY23, owing to growth in group protection and non-linked savings. The average premium equivalent (APE) product mix was well diversified at 40.8%, 28.3%, 6.6%, 4.1%, and 20.2% for linked, non-linked, annuity, group savings, and APE protection, respectively. Furthermore, in 1HFY23, protection APE grew 29.1% to Rs. 7.1bn. Persistency ratios have also improved across cohorts as IPRU has primarily focused on its overall quality business. IPRU's 13th and 49th-month persistency improved by 130bps and 200bps from March 2022 to September 2022 to 85.9% and 61.2%, respectively.

VNB growth on track

VNB grew a significant 25.1% YoY to Rs. 10.9bn in 1HFY23, mainly due to higher sales of high-margin products; VNB margin was a healthy 31.0%. During the period, expenses rose 20.9% YoY to Rs. 27.0bn as the company continues to leverage technology and building for future growth. Commission ratio, though, remained stable at 5.7% (vs. 5.5% in 1HFY22). Meanwhile, assets under management rose 3.0% YoY to Rs. 2,442.79bn and embedded value grew 8.1% YoY to Rs. 326.5b in H1FY23. Also, the insurer's solvency ratio was strong at 200.7% as of September 2022.

Key quarter highlights

- IPRU added 15,465 agents, three bank partners and entered into 44 non-bank partnerships in 1HFY23. Also, it had access to over 13,000 bank branches.
- Insurance Regulatory and Development Authority's (IRDA) primary vision is for every family to have life and health coverage by the centenary year of India's Independence.
- A proposal for setting up Bima Sugam, an all-in-one digital platform, by the IRDA for solicitation, servicing and claims could be a game changer for the industry.

Valuation

IPRU continues to adopt a more customer-centric approach and plans further diversify its product range to boost premiums. The management is also on track to double FY19 VNB by FY23. It remains optimistic on demand being higher in 2HFY23 as well, spurred by improving product mix. IPRU is actively expanding its reach as well. Hence, we reiterate our BUY rating on the stock, with a rolled forward TP of Rs. 629 based on 2.2x FY24E EV.

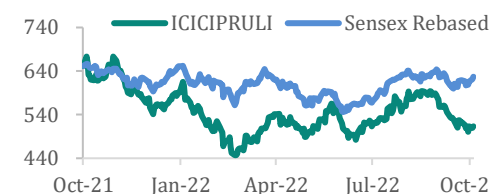
Company Data

Market Cap (cr)	Rs. 73,870
Outstanding Shares (cr)	143.7
Free Float	27.0%
Dividend Yield	0.4%
52 week high	Rs. 682
52 week low	Rs. 430
6m average volume	61,765
Beta	0.9
Face value	Rs. 10

Shareholding %	Q3FY22	Q4FY22	Q1FY23
Promoters	73.4	73.5	73.4
FII's	16.9	16.5	16.1
MFs/Insti	4.3	4.3	5.1
Public	2.5	2.8	2.5
Others	2.9	2.9	2.9
Total	100.0	100.0	100.0
Promotor pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-1.8%	-5.3%	-23.7%
Absolute Sensex	8.1%	3.1%	-4.5%
Relative Return*	-9.9%	-8.4%	-19.2%

*over or under performance to benchmark index



Consolidated (cr)	FY22A	FY23E	FY24E
Net Premium	36,321	40,337	46,144
Growth (%)	3.9	11.1	14.4
New Business (%)	28.0	29.5	30.1
Net Profit	759	1,041	1,194
Growth (%)	(20.6)	37.1	14.7
EPS (Rs.)	5.2	7.2	8.2
Growth (%)	(21.4)	37.1	14.7
BVPS (Rs.)	63.7	71.0	72.0
EVPS (Rs.)	220.0	248.6	285.8
RoE	8.4	10.4	11.7
RoEV	11.0	13.0	15.0
P/E	98.3	71.7	62.5
P/EV	2.3	2.1	1.8
Solvency (%)	216.8	218.8	219.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY23	Q2FY22	YoY Growth %	Q1FY23	QoQ Growth %	H1FY23	H1FY22	YoY Growth %
Premium Earned (Net)	9,582	9,287	3.2	6,884	39.2	16,466	15,888	3.6
Income from investments	12,819	13,546	(5.4)	(8,671)	n.m.	4,148	22,756	(81.8)
Other income	504	297	69.6	325	54.8	829	1,209	(31.4)
Total Income	22,904	23,129	(1.0)	(1,461)	n.m.	21,443	39,853	(46.2)
Incurred Claims	8,022	8,023	(0.0)	5,512	45.5	13,534	13,690	(1.1)
Other expenses	14,317	14,598	(1.9)	(7,413)	n.m.	7,077	25,552	(72.3)
Total Expenses	22,339	22,621	(1.2)	(1,900)	n.m.	20,612	39,242	(47.5)
Tax (policyholders' A/c)	43	26	63.4	44	(3.5)	(87)	(26)	232.8
Surplus (Post tax)	523	482	8.5	395	32.5	918	637	44.0
Transfer to shareholder account	486	440	10.4	296	64.2	782	729	7.2
Interest and other income	208	332	(37.6)	179	16.1	386	734	(47.4)
Other expenses	493	297	66.1	318	55.2	811	1,203	(32.6)
PBT	200	476	(57.9)	157	27.7	357	260	37.1
Tax (shareholders' A/c)	0	30	n.m.	0	(61.5)	0	0	n.m.
Reported PAT	200	446	(55.1)	157	27.8	357	260	37.0
Adj. EPS (Rs.)	1.4	3.1	(55.1)	1.1	27.7	2.5	1.8	37.0

Change in Estimates

Year / Rs cr	Old Estimates		New Estimates		Change %	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Premium Earned (Net)	42,111	48,016	40,337	46,144	(4.2)	(3.9)
Profit before tax	1,593	1,766	1,079	1,237	(32.3)	(29.9)
Net Profit	1,537	1,704	1,041	1,194	(32.3)	(29.9)
EPS (Rs)	10.7	11.9	7.2	8.2	(32.9)	(30.6)

Policyholders' Profit & Loss Account

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Net Premium	32,879	34,973	36,321	40,337	46,144
% change	7.5	6.4	3.9	11.1	14.4
Income from Inv.	(12,517)	47,438	24,970	25,147	27,208
Transfer of funds from shareholders' account	1,497	1,575	2,161	2,387	2,634
Other income	80	93	113	140	179
Total Income	21,940	84,079	63,565	68,011	76,165
Commission	1,586	1,500	1,673	1,632	1,916
Operating Expenses	2,847	2,688	3,673	4,081	4,485
Other Expenses	869	678	720	916	944
Operating Profit	16,638	79,212	57,499	61,382	68,819
% change	(54.6)	376.1	(27.4)	6.8	12.1
Benefits Paid (Net)	19,303	22,525	29,145	29,925	33,665
Change in Reserves	(5,057)	54,324	25,784	27,587	30,895
Tax	131	142	166	249	282
<i>Tax Rate (%)</i>	5.7	6.3	7.1	7.1	7.1
Surplus/Deficit	2,187	2,105	2,190	3,281	3,721
% change	77.3	(3.7)	4.0	49.8	13.4

Shareholders' Profit & Loss Account

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Transfer from Technical A/c	1,989	1,985	2,160	2,772	2,977
Investment Inc.	663	771	1,014	1,035	1,055
Total Income	2,653	2,757	3,186	3,819	4,044
% change	53.3	3.9	15.6	19.8	5.9
Other Expenses	89	105	230	353	173
Contri to Technical A/c	1,497	1,575	2,161	2,387	2,634
Total Expenses	1,586	1,680	2,392	2,740	2,807
PBT	1,067	1,077	795	1,079	1,237
% change	(8.1)	1.0	(26.2)	35.7	14.7
Tax	0	121	36	38	43
<i>Tax Rate (%)</i>	0.0	11.3	4.5	3.5	3.5
Reported PAT	1,067	956	759	1,041	1,194
Adj*					
Adj PAT	1,067	956	759	1,041	1,194
% change	(6.3)	(10.4)	(20.6)	37.1	14.7
No. of shares (cr)	144	144	144	144	144
Adj EPS (Rs)	7.4	6.7	5.2	7.2	8.2
% change	(6.3)	(10.5)	(21.4)	37.1	14.7
DPS (Rs)	0.8	2.0	0.0	0.0	0.0

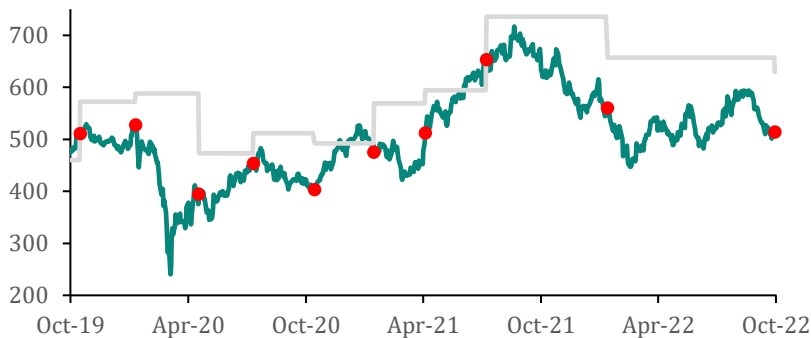
BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22A	FY23E	FY24E
Source of Funds					
Share Capital	1,436	1,437	1,437	1,437	1,437
Reserves & Surplus	6,099	7,057	7,586	8,614	8,753
Fair Value Change	(323)	616	134	148	162
Shareholders' Fund	7,212	9,109	9,158	10,199	10,353
Policy Liabilities	144,441	198,765	224,548	258,207	297,684
Others	(187)	4,262	4,095	4,505	4,955
Policyholder's Fund	144,254	203,027	228,644	262,712	302,639
Funds for Future appropriations	1,233	1,353	1,383	1,892	2,636
Total	152,699	213,489	239,185	274,803	315,628
Application of Funds					
Shareholders'	7,415	10,081	9,847	9,885	9,789
Policyholders'	46,750	63,573	77,388	93,680	113,721
Assets held to cover linked liabilities	97,085	138,549	150,866	169,591	189,684
Loans	463	663	940	1,478	2,221
Fixed assets	478	457	488	520	522
Net Current assets	507	167	(345)	(353)	(311)
Total	152,699	213,489	239,185	274,803	315,628
BVPS (Rs)	50.2	63.4	63.7	71.0	72.0
% change	0.2	2.6	0.0	1.1	0.2

RATIOS

Y.E March	FY20A	FY21A	FY22A	FY23E	FY24E
Per Share (Rs.)					
EPS	7.4	6.7	5.2	7.2	8.2
DPS	0.8	2.0	0.0	0.0	0.0
EVPS	160.4	202.7	220.0	248.6	285.8
Earnings (%)					
RoE	14.2	11.3	8.4	10.4	11.7
RoEV	15.2	15.2	11.0	13.0	15.0
Valuation (x)					
P/E (x)	47.9	67.0	98.3	71.7	62.5
P/EV (x)	2.2	2.2	2.3	2.1	1.8
Div. Yield (%)	0.2	0.4	0.0	0.0	0.0
Exps. (% of premium)					
Commission	4.8	4.3	4.6	4.0	4.2
Operating Expenses	8.7	7.7	10.1	10.1	9.7
Total Expenses	16.1	13.9	16.7	16.4	15.9
Margin (%)					
New Business	21.7	25.1	28.0	29.5	30.1
Solvency (%)					
Solvency	194.1	216.8	216.8	218.8	219.0

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
4-Nov-19	BUY	572
29-Jan-20	BUY	588
6-May-20	BUY	473
30-Jul-20	BUY	512
2-Nov-20	BUY	492
2-Feb-21	BUY	569
23-Apr-21	BUY	594
27-Jul-21	BUY	736
31-Jan-22	BUY	657
20-Oct-22	BUY	629

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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