Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

ICICI Prudential Life Insurance Company Ltd

Product mix continues to drive VNB

Insurance	Sharekhan code: ICICIPRULI
Reco/View: Buy ↔	CMP: Rs. 510 / 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 17.59

Updated August 08, 2022

Low Risk

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

Source: Morningstar

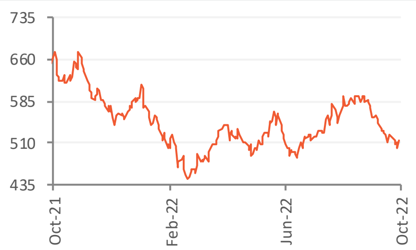
Company details

Market cap:	Rs. 73,294 cr
52-week high/low:	Rs. 682 / 430
NSE volume: (No of shares)	12.3 lakh
BSE code:	540133
NSE code:	ICICIPRULI
Free float: (No of shares)	38.8 cr

Shareholding (%)

Promoters	73.4
FII	16.1
DII	5.1
Others	5.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-11.8	-0.6	-5.7	-21.8
Relative to Sensex	-8.6	-9.9	-5.9	-17.1

Sharekhan Research, Bloomberg

Summary

- ICICI Prudential Life reported 21% growth in VNB. VNB margin expanded to 31.1% in Q2FY2023 (up 500 bps y-o-y/10 bps q-o-q).
- This was driven by change in product mix. Share of non-linked business (par and non-par) increased to 29% in Q2FY2023 from 26% in Q2FY2022. ULIP was down to 41% in Q2FY2023 versus 51% in Q2FY2022. Increase in annuity and group protection also contributed to margin expansion.
- APE growth was muted at 1% y-o-y as strong growth in group protection and non-linked savings was offset by weak performance in ULIPs and group savings.
- We believe the company is expected to deliver a 17% CAGR in VNB over FY2022-FY2024E, driven by premium growth and margin improvement, thus enabling operating RoEV at ~17% in FY2024E. The stock currently trades at 2.1x/1.8x its FY2023E/FY2024E EVPS. We maintain Buy with an unchanged PT of Rs. 660.

ICICI Prudential Life Insurance (IPRU) reported ~39% q-o-q and 3% y-o-y growth in net premium income, led by non-linked savings and group protection. Value of new business (VNB) grew by ~21% y-o-y in Q2FY2023 to Rs. 621 crore. New business premium growth was muted at ~7% y-o-y and APE growth was muted at ~1.1% y-o-y. VNB margin expanded to 31% in Q2FY2023 versus 26% in Q2FY2022, aided by better product mix with higher share of annuity, non-linked, and group protection products. With the company's focus on diversification and better product mix, share of protection in the APE mix improved to 19% vs. 14% in Q2FY2022. The share of ULIPs stood at 41% in Q2FY2023 vs. ~51% in Q2FY2022. Slowdown in the bancassurance and agency side likely forced the company to turn to corporate brokers that delivered 37% y-o-y growth in 2QFY2023.

Key positives

- Improvement in persistency witnessed in all buckets. 25th month persistency was up 260 bps y-o-y, 37th, 49th and 61st month persistency were up 240 bps, 220 bps, and 410bps, respectively.
- VNB margins expanded to 31.1% (up 500 bps y-o-y/10 bps q-o-q), driven by change in product mix.

Key negatives

- Slowdown in individual protection APE (down 27% y-o-y)
- Solvency ratio at 201% vs. 204% in Q1FY2023.

Management Commentary

- Management reiterated its stated objective to focus on absolute VNB growth. It is well on track to achieve its guidance to double to FY2019 VNB by FY2023E, implying 23% y-o-y growth in VNB in FY2023E through better product mix, coupled with strong distribution capabilities.
- The strategy of having diversified products helps to add new distribution channels.
- Non-linked savings, group protection, and annuity segments are supporting growth.

Our Call

Valuation – We maintain Buy on the stock with an unchanged PT of Rs. 660. IPRU currently trades at 2.1/1.8x its FY2023E/FY2024E EVPS, which we believe is reasonable as the strategy of approaching customers with a wider product bouquet through all channels will also boost premium growth. 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 the company is expected to deliver a 17% CAGR in VNB over FY2022-FY2024E, driven by premium growth and margin improvement, thus enabling operating RoEV at ~17% in FY2024E. We have fine-tuned our estimates and our target multiple. We maintain Buy with an unchanged price target (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	FY22	FY23E	FY24E	FY25E
APE (Rs. cr)	7,733	8,540	9,640	10,750
VNB (Rs. cr)	2,163	2,580	2,940	3,290
VNB Margin (%)	28.0	30.2	30.5	30.6
EV (Rs. cr)	31,625	34,700	40,500	47,100
PAT (Rs. cr)	759	860	994	1,140
EPS (Rs.)	5.3	6.0	6.9	7.9
ROE (%)	8.3	9.0	9.8	10.2
P/EV (x)	2.3	2.1	1.8	1.6
P/VNB (x)	33.9	28.4	25.0	22.4

Source: Company; Sharekhan estimates

Key result highlights

- **Product mix:** Non-linked savings, protection and annuity segments are supporting growth. ULIP is struggling due to volatile markets. Focus on annuity products continues as it remains an underpenetrated area. Within protection, group protection is driving strong growth in protection APE for H1FY2023. In group protection, renewal pricing has scaled back to pre-pandemic level and management expects the same to continue. Despite this, the momentum in group protection has been strong. In retail protection, the underwriting process and price have stabilised.
- **Market share:** New business sum assured grew by 42% y-o-y in 1HFY2023, which helped to sustain its market leadership with a market share of 15.7%.
- **Improvement in persistency ratio:** Persistency ratio improved across all buckets with the strongest improvement visible in 61st-month ratio due to continuous effort to improve the quality of business.
- **Reiteration of guidance:** The company has been guided by the elements of 4P strategy of premium growth, protection focus, persistency improvement, and productivity enhancement. The company is on track of its aspiration of doubling FY2019 VNB in FY2023E.
- **Distribution mix:** The strategy of having diversified products helps to add new distribution channels. During H1FY2023, the company added over 15,000 agents, three new bank partners, and 44 non-banks partnerships. With this, it has access to nearly 13,000 bank branches. Its bancassurance channel has 30 bank partners with a share of 32% in APE; and within bancassurance, share of non-ICICI banks is at 14% vs. 17% for ICICI Bank.

Results (Consolidated) **Rs cr**

Particulars	Q2FY23	Q2FY22	Q1FY23	y-o-y	q-o-q
New Business Premium	4,253	3,963	3,371	7%	26%
Net Premium	9,582	9,287	6,884	3%	39%
Income from investments	12,819	13,546	-8,671	-5%	NM
Other income	38	26	33	44%	14%
Total Income	22,904	23,129	-1,461	-1%	NM
Net Commission	413	425	306	-3%	35%
Operating Expenses	1,054	769	918	37%	15%
Provision for taxes	43	26	44	63%	-4%
Surplus/(Deficit)	523	482	395	8%	32%
PBT	200	476	157	-58%	28%
PAT	200	446	157	-55%	28%

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Strong growth outlook

New business, based on retail weighted received premium of the industry, reported 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 are 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 tailwinds for sustainable business growth

Strong growth in VNB and VNB margins in line with its guidance, diversifying business mix, and distribution mix are key positives. IPRU has built a large agency force, which will be the key support for growth. IPRU stands out as a player with low-risk balance sheet and comfortable levels of capitals. 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 promoter), which is a strong growth lever. Bancassurance already helps to contribute meaningfully to its APE 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 runway path for sustainable growth ahead.

■ Valuation – We maintain Buy on the stock with an unchanged PT of Rs. 660

IPRU currently trades at 2.1/1.8x its FY2023E/FY2024E EVPS, which we believe is reasonable as the strategy of approaching customers with a wider product bouquet through all channels will also boost premium growth. 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 the company is expected to deliver a 17% CAGR in VNB over FY2022-FY2024E, driven by premium growth and margin improvement, thus enabling operating RoEV at ~17% in FY2024E. We have fine-tuned our estimates and our target multiple. We maintain Buy with an unchanged PT of Rs. 660.Peer valuation.

Peer Comparison

Companies	CMP (Rs/Share)	MCAP (Rs Cr)	P/BV (x)		P/EV (x)		RoE (%)	
			FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
ICICI Prudential Life Insurance	510	73,294	28.4	25.0	2.1	1.8	9.0	9.8
HDFC Life Insurance Company	524	1,12,527	34.5	29.8	2.7	2.3	9.8	11.8

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 and 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 and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	ICICI BANK LTD	51.27
2	PRUDENTIAL HOLDINGS LTD	22.07
3	SBI FUNDS MANAGEMENT LTD	2.31
4	COMPASSVALE INVESTMENTS PTE LTD	2.00
5	BLACKROCK INC	1.86
6	VANGUARD GROUP INC	1.01
7	BAILLE GIFFORD & CO	0.95
8	TOUCHSTONE ADVISORS INC	0.90
9	ICICI PRUDENTIAL ASSET MANAGEMENT CO LTD	0.54
10	SANDS CAPITAL MANAGEMENT LLC	0.49

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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