

ICICI Prudential Life Insurance Ltd.



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VNB margins sees further expansion; Nearing its targeted VNB

CMP INR 487	Target INR 635	Potential Upside 30.3%	Market Cap (INR Mn) INR 700,652	Recommendation BUY	Sector Life Insurance
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Result Highlights of Q3 FY23:

- In Q3FY23, the Gross Written Premium (GWP) grew 4.7% YoY, while declining by 1.2% QoQ at INR 97,805 Mn.
- The VNB for Q3FY23 grew by 20.0% YoY, while it was flat sequentially at INR 6,180 Mn, led by strong expansion in VNB margins.
- The VNB margin for Q3FY23 stood at 33.9%, up from 26.7% for Q3FY22. This was on account of a shift in the underlying product mix.
- The solvency ratio as of December 31, 2022, was 212% against the regulatory requirement of 150%.
- The total assets under management of the company were INR 2,519 bn as of December 31, 2022, a growth of 6.0% over INR 2,376 bn as of December 31, 2021.

MARKET DATA

Shares outs (Mn)	1,437
Equity Cap (INR Mn)	100,919
Mkt Cap (INR Mn)	700,652
52 Wk H/L (INR)	649/430
Volume Avg (3m K)	1,917
Face Value (INR)	10
Bloomberg Code	IPRU : IN

KEY FINANCIALS

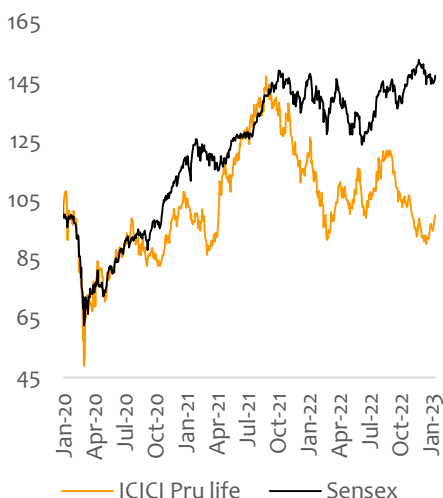
Particulars (INR Mn)	FY21	FY22	FY23E	FY24E	FY25E
GWP	3,57,328	3,74,580	3,80,555	4,23,456	4,81,753
PAT	9,601	7,541	8,520	10,602	14,332
EPS (INR/Share)	6.7	5.2	5.9	7.4	10.0
NBP-APE	59,911	77,330	68,356	82,237	98,940
VNB	16,210	21,630	21,874	25,905	31,166
VNB Margin (%)	21.8%	28.0%	32.0%	31.5%	31.5%
EVPS (INR/Share)	202.7	220.0	246.2	279.4	318.1

Source: Company, KRChoksey Research

Strong margin expansion led by change in product mix: IPRU reported VNB margins at 33.9%, an improvement of 724 bps YoY/ 294 bps QoQ for Q3FY23. The company saw an expansion of 493 bps margins at 32.0% for 9MFY23. This expansion is led by the shift in the underlying product mix. The VNB margin expansion has resulted in strong growth in absolute VNB by 20.0% YoY at INR 6,180 Mn in Q3FY23. The VNB growth sequentially was flattish. In 9MFY23, the absolute VNB stood at INR 17,100 Mn, an increase of 23.2% YoY. The margin expansion & focus on the 4P (Premium growth, Protection business growth, Persistency improvement and Productivity improvement) strategy has helped the company reach its target of doubling the VNB by the end of FY23E. IPRU will continue to be focused on the absolute growth of VNB, which will be led by top-line growth. The company's transformative diversification of products, distribution partnerships and customer segments has resulted in robust growth in VNB. IPRU will continue to outperform the industry in terms of VNB growth over the medium term, led by a well-balanced product and distribution mix. We expect VNB to grow at 12.9% CAGR by FY22-25E with a sustainable rate of margins at 31.5% for FY24E/FY25E.

Premium growth remains modest; Annuity leads the growth for 9MFY23: The Gross Written Premium (GWP) witnessed a growth of 4.7% YoY while de-grew by 1.2% QoQ at INR 97,805 Mn. For 9MFY23, GWP stood at INR 2,69,408 Mn, a growth of 4.6% YoY. The New Business Premium (NBP) for Q3FY23 grew 3.3% YoY to INR 40,272 Mn, driven by 12.6% growth in the single premium segment. The APE for Q3FY23 declined by 5.6% YoY/ 8.9% QoQ owing to de-growth in the first-year premium segment. The APE for 9MFY23 stood at 53,410 Mn, an increase of 4.2% YoY. ULIP APE continued to under-perform with 13.7% de-growth in 9MFY23. The Annuity APE for 9MFY23 grew by 56.0% YoY, whereas the Protection APE grew by 22.7%. The ULIP APE share fell from 48.3% in FY22 to 41.4% in 9MFY23 led by market volatility. It has continuously focused on new Annuity, protection & guaranteed product launches. The under-penetration of the Annuity & protection segment offers a vast opportunity for growth. On the distribution front, ICICI Bank witnessed a fall in APE growth by 36.4% for the YTD period, while the Banca segment ex-ICICI bank reported strong growth of 20.6% YoY. The new Banca partnerships are expected to further drive growth for IPRU.

SHARE PRICE PERFORMANCE

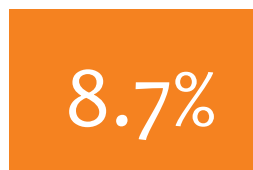


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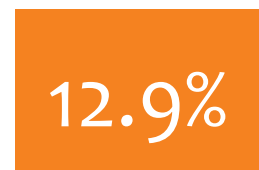
SENSEX	61,046
NIFTY	18,165

SHARE HOLDING PATTERN (%)

Particulars	Sep-22	Jun-22	Mar-22
Promoters	73.4	73.4	73.4
FIIs	16.6	16.4	16.4
DIIIs	5.0	4.7	4.7
Others	5.0	5.5	5.5
Total	100.0	100.0	100.0



GWP CAGR between FY22 and FY25E



VNB CAGR between FY22 and FY25E

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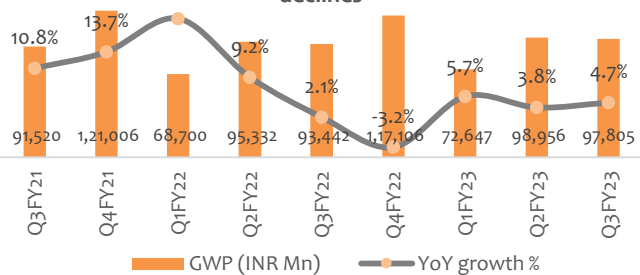
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Key Concall Highlights:

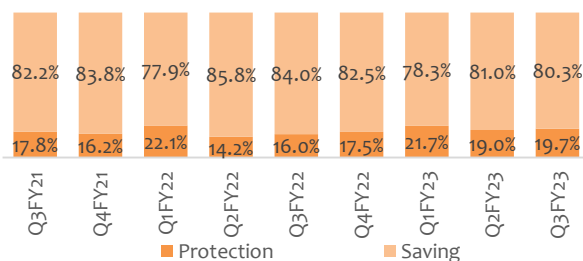
- The IRDAI's new regulation on the registration of Indian insurance companies will potentially attract higher foreign and domestic investments and encourage new participants in the insurance industry.
- The increase in permissible types for corporate agents from three to nine and insurance marketing firms from two to six will provide customers with a broader choice of products and manufacturers.
- The set of regulations, both the notified and proposed by the authority and the proposed insurance amendment bill, will change the face of the insurance industry dramatically, whereby insurers will benefit immensely.
- The company has recently entered into a partnership with UCO bank, one of the country's leading public sector banks with a pan-India presence of more than 3,000 branches. This tie-up gives IPRU an opportunity to serve customers of UCO bank with its comprehensive product suite and expand our distribution reach further. With this tie-up, its reach has expanded to over 16,000 branches of its partner banks.
- Retail protection growth, which has been challenged for the past few quarters, has started to see sequential growth this quarter even as the company continue to leverage the opportunity in group protection.
- The absolute expenses are higher than last year's period due to investments in distribution capacity for future growth.
- IPRU continues to invest in technology, which is central to its strategy, helping the company provide better value to its customers. Additionally, data sciences and analytics have enabled to leverage of data and information, which helps IPRU improve its various processes, such as distribution, operations, etc., and identify new growth opportunities.
- The reduction in the required solvency margin linked to business without guarantees and the prime minister's scheme PM JJBY has improved the solvency ratio by about 10%.

Valuation and view: IPRU reported modest premium growth but sustained its strong & industry-beating VNB margins. The Annuity & Protection segment performances remained stellar. VNB margins expanded further, led by increased contribution from a high-yielding product mix, resulting in taking the company to its aim to double the absolute VNB by the end of FY23E. We believe the company will continue to outperform the industry in terms of VNB growth & margins. The company has maintained its overall market leadership amongst its private peers. Despite the subdued performance of retail protection for the overall industry, IPRU will continue to boost this segment through new launches and improving penetration through its distribution channels. With the addition of new Banca partners, IPRU is confident of achieving a higher topline, resulting in delivering resilient VNB. The persistency ratio improved across the cohorts. The solvency ratio improved to 2.12x from 2.01x a year ago period. We expect GWP to grow at a CAGR of 8.7% over FY22-25E, while margins to sustain at 31.0%-31.5% levels with the expansion of the distribution mix & shift in the product mix. With rising awareness and demand for financial-saving products, Indian life insurance companies have a significant opportunity. Thus, IPRU is well positioned to capture it, considering its improving market share and leadership amongst its private peers. Since our last update, the ICICI Prudential Life Insurance share has been corrected by 5.1%, which implies P/EV at 1.5x FY25E. We are cautious on the declining investment income trend owing to underperformance of ULIP and market volatility and sluggish performance of the retail protection segment. We are rolling over the target to FY25E. **We assign a 2.0x (earlier 2.3x P/EV of FY24E) P/EV on FY25E EVPS of INR 318.1 and a VNB multiple of 14.7x to arrive at a weighted average Target Price of INR 635 per share (earlier INR 680) (50:50 weights on the P/EV and appraisal value methodology); indicating a 30.3% upside from the CMP. Accordingly, we re-iterate our "BUY" rating on the shares of ICICI Prudential Life Insurance Ltd.**

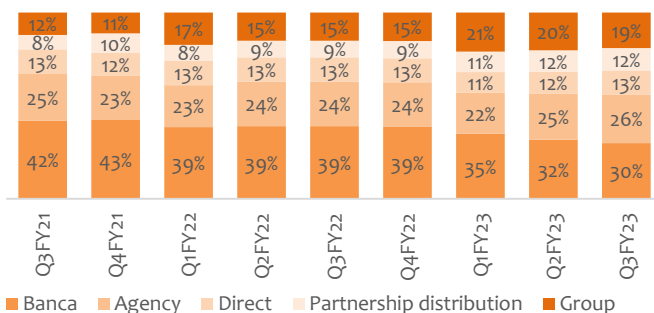
Gross Written Premium – First-Year premium growth declines



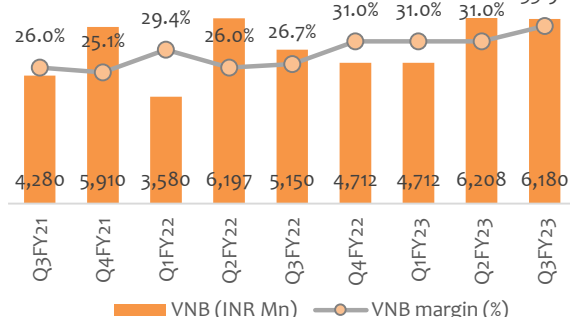
Product mix on APE basis (%)



Channel mix on APE basis (%)



Value of new business



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Revenue Account/Policy Holder's Account

Particulars (INR Mn)	FY21	FY22	FY23E	FY24E	FY25E
Gross premiums	3,57,328	3,74,580	3,80,555	4,23,456	4,81,753
Reinsurance ceded	7,595	11,367	7,611	8,469	9,635
Net premiums	3,49,734	3,63,213	3,72,944	4,14,987	4,72,118
Net income from investments	4,91,057	2,72,432	2,45,189	2,66,932	3,01,853
Total income	8,40,791	6,35,645	6,18,133	6,81,918	7,73,971
Commission expenses	15,002	16,729	17,125	19,056	21,679
Operating expenses	26,883	36,730	43,764	48,697	55,402
Service tax on linked charges	6,546	6,914	7,593	8,136	8,136
Other expenses/provisions	238	281	250	250	250
Operating profit	7,92,122	5,74,991	5,49,401	6,05,780	6,88,505
Benefits paid (net)	2,26,409	2,93,588	2,99,232	3,12,116	3,45,523
Change in reserves	5,43,241	2,57,838	2,28,500	2,68,500	3,13,000
Provisions	1,418	1,662	1,517	1,761	2,099
Surplus/(Deficit) After Tax	21,054	21,904	20,152	23,402	27,884

Source: Company, KRChoksey Research

Exhibit 2: Premium Schedule

Particulars (INR Mn)	FY21	FY22	FY23E	FY24E	FY25E
First year premiums	51,872	59,655	57,865	69,439	83,326
Single premiums	80,389	95,367	1,04,904	1,27,983	1,56,139
New business premium (NBP)	1,32,261	1,55,023	1,62,770	1,97,422	2,39,466
NBP growth (%)	6%	17%	5%	21%	21%
Renewal premiums	2,25,068	2,19,558	2,17,786	2,26,034	2,42,288
Renewal premiums growth (%)	7%	-2%	-1%	4%	7%
Total premiums	3,57,328	3,74,580	3,80,555	4,23,456	4,81,753
Total premium growth (%)	7%	5%	2%	11%	14%
NBP – APE	59,911	77,330	68,356	82,237	98,940
NBP - APE growth (%)	-19%	29%	-12%	20%	20%

Source: Company, KRChoksey Research

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

Particulars (INR Mn)	FY21	FY22	FY23E	FY24E	FY25E
Transfer from Technical account	19,849	21,602	19,652	22,402	26,884
Income from investments & other income	7,690	10,136	9,312	10,342	11,583
Total income	27,538	31,738	28,965	32,744	38,467
Total expenses	16,724	23,833	19,996	21,583	23,380
PBT	10,814	7,906	8,969	11,160	15,087
Provision for tax	1,213	365	448	558	754
PAT	9,601	7,541	8,520	10,602	14,332

Source: Company, KRChoksey Research

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Exhibit 4: Balance Sheet

Particulars (INR Mn)	FY21	FY22	FY23E	FY24E	FY25E
Sources of funds					
Share capital	14,360	14,373	14,373	14,373	14,373
Reserves and surplus	70,671	75,915	82,312	90,271	1,01,031
Fair value change account - net	6,158	1,342	1,342	1,342	1,342
Shareholders' fund	91,189	91,631	98,027	1,05,986	1,16,746
Liabilities (Policyholder's Funds)					
Fair value change account - net	29,935	28,275	31,842	35,982	40,659
Revaluation reserve-Investment property	687	680	765	865	977
Policy liabilities	6,02,156	7,36,822	8,29,790	9,37,663	10,59,559
Provision for linked liabilities	10,58,551	11,61,143	13,07,650	14,77,645	16,69,739
Credit/[debit] fair value change account	2,19,153	2,44,271	2,75,092	3,10,854	3,51,266
Discontinued due to non-payment of premium	1,07,787	1,03,249	1,16,276	1,31,392	1,48,473
Sub-Total	20,18,269	22,74,439	25,61,417	28,94,401	32,70,674
Funds for future Appropriations	13,540	13,833	14,500	14,500	14,500
Total Sources of Funds	21,35,003	23,91,903	26,96,203	30,40,040	34,30,342
Application of Funds					
Investments					
- Shareholders	1,00,902	98,535	1,08,406	1,21,414	1,35,984
- Policyholders	6,35,726	7,73,880	8,70,615	9,79,442	11,01,872
Asset held to cover linked liabilities	13,85,491	15,08,663	16,97,246	19,09,402	21,48,077
Loans	6,628	9,401	11,281	13,538	16,245
Fixed assets - net block	4,572	4,872	4,756	4,756	4,756
Deferred tax asset	0	0	0	0	0
Net current assets	1,684	-3,449	3,899	11,488	23,407
Total Applications of Funds	21,35,003	23,91,903	26,96,203	30,40,040	34,30,342

Source: Company, KRChoksey Research

Exhibit 5: EV Calculation

Particulars (INR Mn)	FY21	FY22	FY23E	FY24E	FY25E
Opening EV	2,30,300	2,91,060	3,16,250	3,53,840	4,01,648
Unwind	16,610	20,850	22,770	25,476	28,919
VNB (or NBAP)	16,210	21,630	21,874	25,905	31,166
Operating variance	2,240	-10,560	70	1,570	1,570
EV Operating Profit (EVOP)	35,060	31,920	44,714	52,951	61,655
Non-operating variance	25,670	-4,370	-5,000	-2,500	-2,500
EV Profit	60,730	27,550	39,714	50,451	59,155
Net capital injection	30	-2,360	-2,124	-2,643	-3,573
Closing EV	2,91,060	3,16,250	3,53,840	4,01,648	4,57,230

Source: Company, KRChoksey Research

Exhibit 6: Key Financials

Particulars (INR Mn)	FY21	FY22	FY23E	FY24E	FY25E
Total premium	3,57,328	3,74,580	3,80,555	4,23,456	4,81,753
Net premium earned	3,49,734	3,63,213	3,72,944	4,14,987	4,72,118
NBP-APE	59,911	77,330	68,356	82,237	98,940
Combined ratio (%)	11.4%	14.3%	16.0%	16.0%	16.0%
Surplus/(Deficit)	21,054	21,904	20,152	23,402	27,884
VNB margin (%)	21.8%	28.0%	32.0%	31.5%	31.5%
PAT	9,601	7,541	8,520	10,602	14,332
EPS (Rs.)	6.7	5.2	5.9	7.4	10.0
EVPS (Rs.)	202.7	220.0	246.2	279.4	318.1
RoEV (%)	15.2%	11.0%	14.1%	15.0%	15.4%
RoE (%)	11.8%	8.2%	9.0%	10.4%	12.9%

Source: Company, KRChoksey Research

ICICI Prudential Life Insurance Ltd.

ICICI PruLife Insurance				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
19-Jan-23	487	635	BUY	Buy	More than 15%
18-Oct-22	513	680	BUY		
18-Jul-22	521	680	BUY	Accumulate	5% – 15%
18-Apr-22	542	772	BUY	Hold	0 – 5%
19-Jan-22	574	772	BUY	Reduce	-5% – 0
20-Oct-21	636	772	BUY		
31-Aug-21	660	679	HOLD	Sell	Less than – 5%

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