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. 465	Price Target: Rs. 600	↓

↑ 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 16.73

Updated Dec 08, 2022

Low Risk

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

Source: Morningstar

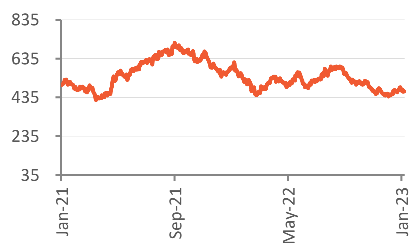
Company details

Market cap:	Rs. 66,836 cr
52-week high/low:	Rs. 609 / 430
NSE volume: (No of shares)	15.0 lakh
BSE code:	540133
NSE code:	ICICIPRULI
Free float: (No of shares)	38.8 cr

Shareholding (%)

Promoters	73.4
FII	15.4
DII	5.9
Others	5.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.3	-7.0	-12.1	-14.4
Relative to Sensex	6.3	-6.0	-15.2	-18.1

Sharekhan Research, Bloomberg

Summary

- ICICI Prudential Life reported 20% y-o-y growth in VNB. VNB margin expanded to 33.9% in Q3FY2023 (up 722 bps y-o-y).
- This was driven by change in product mix. Share of non-linked business (par and non-par) increased to 29% in Q3FY2023 from 25% in Q3FY2022. ULIP was down to 43% in Q3FY2023 versus 53% in Q3FY2022. Increase in annuity and group protection also contributed to margin expansion.
- APE was down by 6% y-o-y due to weak ULIP growth even as non- linked savings and protection businesses grew strongly. Also, ICICI bank channel continued to drag APE growth, ex-ICICI, growth was moderate at 12% y-o-y.
- We believe the company is expected to deliver 13% CAGR in VNB over FY2022-FY2025E. The stock currently trades at 1.9x/1.7x/ 1.4x its FY2023E/FY2024E/FY2025E EVPS. Valuations are inexpensive. We maintain Buy with an revised PT of Rs. 600.

ICICI Prudential Life Insurance (IPRU) reported 4% y-o-y growth in net premium income, however down by 1% q-o-q. Value of new business (VNB) grew by ~20% y-o-y in Q3FY2023 to Rs. 620 crore. New business premium growth was muted at ~3% y-o-y and APE growth declined by 6% y-o-y. VNB margin expanded to 33.9% in Q3FY2023 versus 26.7% in Q3FY2022, aided by better product mix. With the company's focus on diversification and better product mix, share of protection in the APE mix improved to 18.7% vs. 15.9% in Q3FY2022. The share of ULIPs stood at ~43% in Q3FY2023 vs. ~53% in Q3FY2022. Slowdown in the bancassurance and agency side likely forced the company to turn to corporate brokers that delivered 30% y-o-y growth in Q3FY2023. It reported an improvement in persistency in all buckets. The 13th-month persistency improved by 130 bps y-o-y to 86.1%, while the 61st - month persistency improved by 810 bps y-o-y to 64.2%.

Key positives

- Improvement in persistency witnessed in all buckets. 13th month persistency was up 130 bps y-o-y, 25th, 37th, 49th and 61st month persistency were up 140 bps, 340 bps, 290 bps and 810bps, respectively.
- VNB margins expanded to 33.9% (up 722 bps y-o-y)

Key negatives

- Slowdown in APE (down 6% y-o-y)
- Cost ratios are on higher side

Management Commentary

- Company expects VNB growth is likely to be driven by top line growth going ahead. It has also guided for flat margins for the next year.
- Non-linked savings, group protection, annuity segments and now retail protection is supporting growth.
- APE growth will likely pick up in FY2024E as the relevance of the parent bank is incrementally getting lower. The company has onboarded 300 corporate agents. These corporate agents source customers who have affinity to particular a segment like linked, traditional or web/digital products. The multiplicity and diversity in these partnerships should support sales of its diversified product bouquet.

Our Call

Valuation – We maintain Buy on the stock with a revised PT of Rs. 600. IPRU currently trades at 1.9x/1.7x/ 1.4x its FY2023E/FY2024E / FY2025EEVPS, which we believe is reasonable as the strategy of approaching customers with a wider product bouquet through all channels will also boost premium growth. It continues to add and invest in new partnerships, offering a diversified product and channel offering. We expect its market share to be stable from hereon. We believe the company is expected to deliver a 13% CAGR in VNB over FY2022-FY2025E. We have fine-tuned our estimates and target multiple. We maintain Buy with a revised price target (PT) of Rs. 600.

Key Risks

Slower growth in protection products, overall slow APE growth. Any adverse regulatory policies/ guidelines may affect its profitability.

Valuation (Consolidated) Rs cr

Particulars	FY22	FY23E	FY24E	FY25E
APE (Rs. cr)	7,733	8,060	9,040	9,900
VNB (Rs. cr)	2,163	2,510	2,850	3,100
VNB Margin (%)	28.0	31.1	31.5	31.3
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)	2.1	1.9	1.7	1.4
P/VNB (x)	30.8	26.6	23.4	21.6

Source: Company; Sharekhan estimates

Key result highlights

- **Product mix:** Retail protection growth has started rising sequentially. Group segment though continues to remain healthy. Annuity, group saving and group protection APE grew at 33%, 73% and 25%, respectively. APE growth will likely pick up in FY2024E as the relevance of the parent bank is incrementally getting lower. Retail protection APE was down 17% y-o-y in Q3FY23, although there was sequential q-o-q growth of 20%, supported by the newly launched ROP product. Since the last four quarters, ICICI Prudential Life has increased retention on retail term policies. This was balanced with price hikes, so that the migration was margin neutral.
- **Market share:** Market share in new business sum assured has improved to 14.6% in 9MFY23 from 13.4% in FY22.
- **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.
- **Distribution mix:** ICICI Bank continues to go slow in insurance distribution. The overall contribution declined to 15% from 28% in Q3FY22. Growth at other banca partners such as AU SFB, IDFC Bank, IndusInd Bank and RBL moderated to 6% from 20-60% growth in the last four quarters. Despite the weakness this quarter, the new banca partners will be a major driver of overall APE growth. The company has onboarded 300 corporate agents. These corporate agents source customers who have affinity to particular a segment like linked, traditional or web/digital products. The multiplicity and diversity in these partnerships should support sales of its diversified product bouquet.

Results (Consolidated) Rs cr

Particulars	Q3FY23	Q3FY22	Q2FY23	Y-o-Y %	Q-o-Q %
New Business Premium	4,027	3,899	4,253	3%	-5%
Net Premium	9,465	9,074	9,582	4%	-1%
Income from investments	7,722	737	12,819	948%	-40%
Other income	37	29	38	26%	-4%
Total Income	17,535	9,865	22,904	78%	-23%
Net Commission	391	421	413	-7%	-5%
Operating Expenses	1,044	838	1,054	25%	-1%
Provision for taxes	51	47	43	6%	19%
Surplus/(Deficit)	525	409	523	28%	0%
PBT	226	312	200	-28%	13%
PAT	222	312	200	-29%	11%

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Strong growth outlook

The pandemic disrupted businesses and altered the way business was done. But continued efforts around innovation and digital transformation have been enabling to change as per customer needs and the business playbook. The companies are leveraging technology for customer empowerment and convenience, seamless and hassle-free onboarding and to drive increased penetration in the country. Technology is also helping to develop meaningful partner and consumer insights and build a better product understanding. Insurance penetration is 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. 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 which is a strong growth lever. Bancassurance 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 a revised PT of Rs. 600

IPRU currently trades at 1.9x/1.7x/ 1.4x its FY2023E/FY2024E/FY2025E 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. It continues to add and invest in new partnerships, offering a diversified product and channel offering. We expect its market share to be stable from hereon. We believe the company is expected to deliver 13% CAGR in VNB over FY2022-FY2025E. We have fine-tuned our estimates and target multiple. We maintain Buy with a revised price target (PT) of Rs. 600.

Peer Comparison

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/VNB (x)		P/EV (x)		RoE (%)	
			FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
ICICI Prudential Life Insurance	465	66,836	26.6	23.4	1.9	1.7	9.0	9.8
HDFC Life Insurance Company	587	1,26,049	39.5	32.8	3.2	2.7	9.0	10.8

Source: Company, Sharekhan estimates

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, overall slow APE growth. Any adverse regulatory policies/guidelines may affect its profitability.

Additional Data

Key management personnel

Mr. N. S. Kannan	Managing Director and Chief Executive Officer
Mr. Satyan Jambunathan	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	ICICI BANK LTD	51.27
2	PRUDENTIAL CORP HOLDINGS LTD	22.07
3	COMPASSVALE INVESTMENTS PTE LTD	2.00
4	SBI FUNDS MANAGEMENT LTD	1.99
5	BLACKROCK INC	1.84
6	BAILLIE GIFFORD & CO	0.90
7	VANGUARD GROUP INC	0.88
8	TOUCHSTONE ADVISORS INC	0.81
9	ICICI PRUDENTIAL ASSET MANAGEMENT CO LTD	0.76
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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