Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

ICICI Prudential Life Insurance

Strong quarter on expected lines

Insurance	Sharekhan code: ICICIPRULI
Reco/View: Buy ↔	CMP: Rs. 456 / 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 Mar 08, 2023	

Low Risk

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

Source: Morningstar

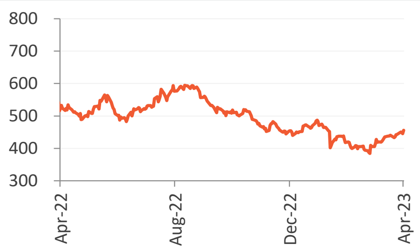
Company details

Market cap:	Rs. 65,578 cr
52-week high/low:	Rs. 609 / 381
NSE volume: (No of shares)	20.2 lakh
BSE code:	540133
NSE code:	ICICIPRULI
Free float: (No of shares)	38.8 cr

Shareholding (%)

Promoters	73.4
FII	15.2
DII	6.1
Others	5.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.3	-3.2	-12.1	-13.3
Relative to Sensex	9.4	-1.0	-13.4	-17.7

Sharekhan Research, Bloomberg

Summary

- ICICI Prudential Life (IPRU) reported strong 36% y-o-y growth in VNB. VNB margin expanded to 32% in Q4FY2023 (up 226 bps y-o-y). APE grew by 27% y-o-y.
- This was mainly led by higher business volumes from sale of higher ticket value non-linked products in the last two months of the quarter, ahead of the change in union budgetary provision. The share of non-linked business (par and non-par) increased to ~51% in Q4FY2023 vs. ~29% in Q3FY2023 in overall APE.
- Non-linked, annuity, and retail protection APE grew by 105%, 102%, and 27% y-o-y in Q4FY2023, respectively. ICICI Bank continues to go slow in insurance distribution. Overall, ICICI Banks contribution has declined to 9% in Q4FY2023 in the APE mix.
- The stock currently trades at 1.6x/1.4x its FY2024E/FY2025E EVPS. Valuations are inexpensive. We maintain Buy with an unchanged PT of Rs. 600.

ICICI Prudential Life Insurance (IPRU) reported 12% growth in APE for FY2023. Value of new business (VNB) grew by ~28% y-o-y in FY2023, while VNB margin expanded to 32% versus 28% in FY2022, aided by strong growth in non-linked and annuity products. Embedded value (EV) increased by 12.7% y-o-y in FY2023. The company reported improvement in persistency ratio in all buckets. The 13th-month persistency ratio improved by 90 bps y-o-y to 86.6%, while the 61st-month persistency ratio improved by 1130 bps y-o-y to 65.7%. The share of protection in the APE mix remained stable at ~17% in FY2023. The share of non-linked improved to ~37% in FY2023 vs. 27% in FY2022, while the share of ULIPs declined to 36% vs. 48% in FY2023. Lower drag from ICICI Bank channel and push in lower-ticket value, non-linked business is expected to drive business volumes over the medium term.

Key positives

- Retail protection APE grew by 27% y-o-y in Q4FY2023 and this segment has shown sequential growth throughout FY2023.
- Improvement in persistency was witnessed in all buckets.

Key negatives

- Cost ratios were on the higher side. Cost to APE stood at 22.8% in Q4FY2023 (up 236 bps y-o-y/340 bps q-o-q). Expenses are elevated due to investments in new partnerships and agency channel.

Management Commentary

- The company remained confident of delivering strong VNB growth in the subsequent years. It also dismissed concerns on base effect on full-year APE growth.
- Union budgetary provisions will not have any material impact and the company has already prepared for a regime where no tax incentives are given in terms of the product portfolio.
- The company remained upbeat on FY2024 growth, led by continuous investments in diversified channels in the past four years.

Our Call

Valuation – We maintain our Buy rating on the stock with an unchanged PT of Rs. 600: IPRU currently trades at 1.6x/1.4x its FY2024E/FY2025E EVPS, which we believe is reasonable. The strategy of approaching customers with a wider product bouquet through all channels will also boost premium growth. The company continues to add and invest in new partnerships, offering a diversified product and channel offering. Lower drag from ICICI Bank channel and push in lower-ticket value, non-linked business is expected to drive business volumes over the medium term. We expect its market share to be stable from hereon. Given signs of a turnaround in retail protection, we expect margins to remain stable.

Key Risks

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

Valuation Rs cr

Particulars	FY22	FY23	FY24E	FY25E
APE	7,733	8,640	9,040	9,900
VNB	2,163	2,765	2,850	3,100
VNB Margin (%)	28.0	32.0	31.5	31.3
EV	31,625	35,634	40,500	47,100
PAT	754	811	994	1,140
EPS (Rs.)	5.3	5.6	6.9	7.9
ROEV (%)	8.7	12.7	16.3	16.1
P/EV (x)	2.1	1.9	1.6	1.4
P/VNB (x)	30.1	23.9	23.2	21.3

Source: Company; Sharekhan estimates

Key result highlights

- **Product mix:** Retail protection growth has started picking up well (27% y-o-y in Q4FY2023). Annuity and group saving APE grew at 102%/42% y-o-y in Q4FY2023. APE growth will likely pick up in FY2024E as the relevance of the parent bank is incrementally getting lower. The share of protection in the APE mix remained stable at ~17% in FY2023. The share of non-linked improved to ~37% in FY2023 vs. 27% in FY2022, while the share of ULIPs declined to 36% vs. 48% in FY2023. Lower drag from ICICI Bank channel and push in lower-ticket value, non-linked business is expected to drive business volumes over the medium term. The company has broadened its product mix with product launches across protection, annuity, and savings.
- **Improvement in persistency ratio:** Persistency ratio improved across all buckets with the strongest improvement visible in the 61st-month ratio. Upgrade in persistency is an important lever for margin expansion/higher operating variance for the company. The 1,130-bps improvement in 61st-month persistency ratio is likely driven by a shift in product mix from ULIPs towards non-linked products.
- **Distribution mix:** ICICI Bank continues to go slow in insurance distribution. The overall contribution declined to 9% in Q4FY2023 and 14% in FY2023 vs. 56% in FY2019. Growth at other banca partners such as AU SFB, IDFC Bank, IndusInd Bank, and RBL remained strong at 24% y-o-y in Q4FY23 and 23% in FY2023. Growth from new banca partners will likely moderate as the base adjusts. The company will look at adding new partners and/or enhance current relationships as the regulations permit more corporate partnerships. The company has onboarded 113 corporate agents. These corporate agents source customers who have affinity to a particular segment like linked, traditional, or web/digital products. The multiplicity and diversity in these partnerships should support sales of its diversified product bouquet. ICICI Bank has been generating stable business at Rs. 1.0 billion a month and is now at a stage where the impact of a further decline will not move the needle.

Results (Consolidated) Rs cr

Particulars	Q4FY23	Q4FY22	Q3FY23	y-o-y %	q-o-q %
New Business Premium	5,762	4,908	4,027	17%	43%
Net Premium	12,629	11,359	9,465	11%	33%
Income from investments	-1,905	1,476	7,722	-229%	-125%
Other income	44	33	37	33%	19%
Total Income	11,500	13,846	17,535	-17%	-34%
Net Commission	754	556	391	35%	93%
Operating Expenses	1,567	1,299	1,044	21%	50%
Provision for taxes	47	93	51	-49%	-7%
Surplus/(Deficit)	859	1,144	525	-25%	64%
PBT	317	222	226	43%	40%
PAT	235	187	222	26%	6%

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Strong growth outlook

The pandemic disrupted businesses and altered the way business was done. However, ongoing innovation and digital transformation initiatives have made it possible to adapt to consumer demands and corporate strategies. Technology is also helping to develop meaningful partners 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. Against this backdrop, we believe strong players armed with the right mix of products, services, and distribution are likely to gain disproportionately from the opportunity. Moreover, the pandemic has highlighted the protection gap in the country.

■ Company outlook - Sustained growth opportunity

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 a low-risk balance sheet and comfortable levels of capital. While a ULIP-heavy top line was also prone to capital market-linked volatility, we believe the 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 a significant runway path for sustainable growth ahead.

■ Valuation - We maintain a Buy rating on the stock with an unchanged PT of Rs. 600

IPRU currently trades at 1.6x/1.4x its FY2024E/FY2025E EVPS, which we believe is reasonable. The strategy of approaching customers with a wider product bouquet through all channels will also boost premium growth. The company continues to add and invest in new partnerships, offering a diversified product and channel offering. Lower drag from ICICI Bank channel and push in lower-ticket value, non-linked business is expected to drive business volumes over the medium term. We expect its market share to be stable from hereon. Given signs of a turnaround in retail protection, we expect margins to remain stable.

Peer Comparison

Companies	CMP (Rs/Share)	MCAP (Rs Cr)	P/VNB (x)		P/EV (x)		RoEV (%)	
			FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
ICICI Prudential Life Insurance	456	65,578	23.2	21.3	1.6	1.4	16.3	16.1
HDFC Life Insurance Company	534	1,14,778	32.5	24.7	2.5	2.1	19.2	19.0

Source: Company; Sharekhan Research

About company

IPRU is promoted by ICICI Bank Limited and a foreign partner headquartered in the 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. Thecompany is the third largest private sector life insurance company in the country.

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 the 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 a solvency ratio of over 209% (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 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

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	BLACKROCK INC	1.82
5	SBI FUNDS MANAGEMENT LTD	1.73
6	VANGUARD GROUP INC	1.02
7	BAILLIE GIFFORD & CO	0.87
8	ICICI PRUDENTIAL ASSET MANAGEMENT CO LTD	0.81
9	TOUCHSTONE ADVISORS INC	0.72
10	FRANKLIN RESOURCES INC	0.72

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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