

BUY **ICICI Pru Life**

ASIAMONEY BROKERS POLL - 2023

Emkay Research

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Your success is our success**Focus on growth is comforting****BFSI** ▶ Result Update ▶ **July 19, 2023****TARGET PRICE (Rs): 660**

ICICI Pru Life delivered in-line results for Q1FY24, with a marginal beat of 2.6% on APE to Rs14.6bn; however, VNB margin at 30% came in slightly below our estimate of 31%, thus driving in-line VNB at Rs4.4bn. The margin moderation was primarily on account of higher expenses, as Management focus on growth is being backed by investments in augmenting distributing channels and increasing productivity. PAT at Rs2.1bn grew 32.4% YoY (Emkay est: Rs1.6bn), likely driven by higher back-book profit. Retail protection APE growth at 61% YoY to Rs 1.1bn affirmed the bounce-back of retail protection. Comforted by the commentary around growth in the ex-ICICI Bank channels, we increase our FY24-26E APE and retain our BUY rating on the stock, with revised Jun-24E target price of Rs660/share (implied FY25E P/EV: 2x).

ICICI Pru Life: Financial Snapshot

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
GWP	3,74,580	3,99,328	4,34,567	4,78,965	5,32,944
APE	77,330	86,400	91,964	1,01,875	1,12,885
VNB	21,630	27,650	27,952	30,941	34,745
VNB margin (%)	28.0	32.0	30.4	30.4	30.8
APE growth (%)	19.7	11.7	6.4	10.8	10.8
VNB growth (%)	33.4	27.8	1.1	10.7	12.3
Adj. EPS (Rs)	5.3	5.6	8.3	10.4	10.9
EV	3,16,250	3,56,340	4,10,648	4,71,777	5,41,938
EVOP	31,920	54,880	59,465	67,104	76,443
Op. RoEV (%)	11.0	17.4	16.7	16.3	16.2
EVPS (INR)	220.0	247.9	285.7	328.2	377.1
P/EV (x)	2.6	2.3	2.0	1.7	1.5
P/EVOP (x)	25.8	15.0	13.9	12.3	10.8

Source: Company, Emkay Research

Performance largely on expected lines; increased comfort on growth outlook

IPRU Life reported broadly in-line Q1FY24 results. The minor miss on VNB margin was owing to higher operating expense on account of investments in distribution channel augmentation and enhancing their productivity to support the Management strategy of focusing on APE growth for driving VNB growth over coming years. Total Expense Cost/TWRP stood at 27.7% for Q1FY24 vs. 23.8% for Q1FY23. Persistency across cohorts improved, with the highest-ever 61st-month persistency at 66.5% in Q1FY24. IPRU Life continued to invest in technology and distribution channels, in order to increase capacity and productivity. In accounting profit terms, PAT grew 32.4% YoY to Rs2.1bn, largely driven by better profit in the back-book. AUM increased 6.1% QoQ to Rs2,664bn as against our expectation of Rs2,695bn, owing to robust movement in equity markets.

Retail Protection back in action

For Q1FY24, IPRU Life reported 61.8% YoY growth in Retail Protection to Rs1.1bn on APE basis, indicating that Retail Protection is back to getting good traction. Contribution of Retail Protection in the overall APE product mix increased to 7.6% in Q1FY24 as against 4.5% in Q1FY23. Total protection APE growth was 4% YoY, reflecting the feeble trend in Group protection. The weaker group protection trend was driven by GTI, where the price saw a re-set (on the post-Covid steep-hike base) and came on expected lines.

Minor tweak to estimates; retain BUY with Jun-24E TP of Rs660/share

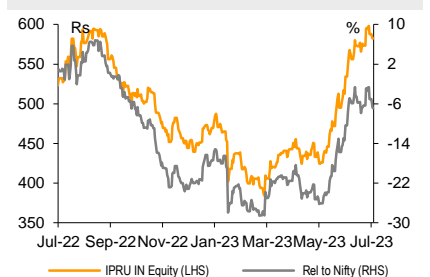
We have adjusted our FY24-26 estimates to reflect the Q1FY24 developments, with increased comfort on growth outlook. We have increased our APE estimates by 4-8%; however, a slight cut in the VNB margin has resulted in a 3-4% increase in VNB estimates. We retain our BUY rating on the stock, with revised Jun-24E target price of Rs660/share, implying a target FY25E P/EV multiple of 2x.

Target Price – 12M	Jun-24
Change in TP (%)	5.6
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	15.0
CMP (18-Jul-23) (Rs)	573.9

Stock Data	Ticker
52-week High (Rs)	616
52-week Low (Rs)	381
Shares outstanding (mn)	1,438.9
Market-cap (Rs bn)	826
Market-cap (USD mn)	10,067
Net-debt, FY22E (Rs mn)	0
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	1,114.0
ADTV-3M (USD mn)	13.6
Free float (%)	-
Nifty-50	19,749
INR/USD	82.0
Shareholding, Mar-23	
Promoters (%)	73.4
FPIs/MFs (%)	15.2/6.1

Price Performance

(%)	1M	3M	12M
Absolute	7.4	27.6	9.7
Rel. to Nifty	2.4	14.1	(9.6)

1-Year share price trend (Rs)**Avinash Singh**

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Exhibit 1: Q1FY24 Financial Result Summary

(Rs bn)	Q1FY24	Q1FY23	% YoY	Q1FY24E	Var.	Q4FY23	% QoQ
Annualised Premium Equivalent (APE)	14.6	15.2	-3.9	14.2	2.6%	33.0	-55.7
--o/w Savings	11.2	11.9	-6.1			28.5	-60.8
--o/w Protection	3.4	3.3	4.2			4.5	-24.2
Protection APE (% of total APE)	23.5	21.7	1.8ppts			13.8	9.8ppts
Value of New Business	4.4	4.7	-7.0	4.4	-0.8%	10.6	-58.5
New Business Margin (%)	30.0	31.0	-1.0ppts	31.0	-1.0ppts	32.0	-2.0ppts
Total New Business Premium	32.2	33.7	-4.5			57.6	-44.2
Renewal premium	41.6	38.9	6.8			72.3	-42.5
Gross written premium	73.7	72.6	1.5			129.9	-43.2
PAT	2.1	1.6	32.4	1.6	29.8%	2.3	-11.3
AUM	2,664	2,301	15.8	2695	-1.1%	2,512	6.1
SH Equity	105.2	90.5	16.2			100.9	4.2
13th month persistency (%)	86.4	85.5	0.9ppts			85.4	1.0ppts
49th month persistency (%)	64.7	65.0	-0.3ppts			63.9	0.8ppts
61st month persistency (%)	66.5	55.7	10.8ppts			65.8	0.7ppts
Solvency ratio (%)	203.4	203.6	0ppts			208.9	-6ppts

Source: Company, Emkay Research

Exhibit 2: Appraisal methodology-based valuation for IPRU Life

Parameter (Rs bn)	Value
FY24-39E APE CAGR	8.7%
FY24-39E VNB CAGR	8.8%
Terminal growth rate	5.0%
Cost of Equity	13.5%
FY24 EV	411
Present value of future new business	502
Appraisal value - Mar- 24	917
Share count (mn)	1,437
Appraisal value per share (Rs.) - Mar-24	638
Price target (Rs.) - Jun-24	660

Source: Company, Emkay Research

Exhibit 3: Implied valuation multiples for IPRU Life

Target multiple on FY25 estimates (Rs/share)	660
P/EV	2.0x
RoEV	16.3
P/Op. EV Profit	14.1x
Implied FY25E VNB multiple	16.2x
Current price multiple on FY25 estimates (Rs/share)	574
P/EV	1.7x
RoEV (%)	16.3
P/EVOP	12.3x
Implied FY25E VNB multiple	13.4x

Source: Company, Emkay Research

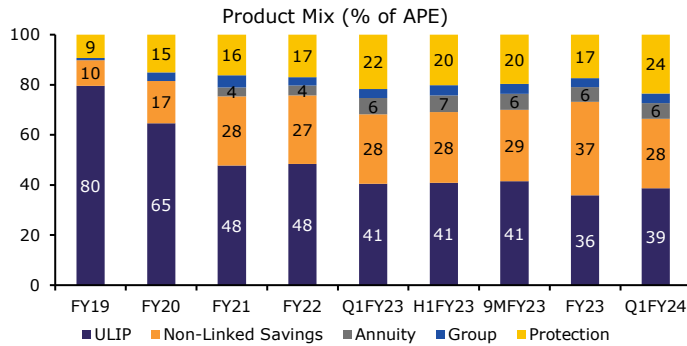
Exhibit 4: Changes in Estimates

(Rs mn)	FY24E			FY25E			FY26E		
	Old	Revised	% Change	Old	Revised	% Change	Old	Revised	% Change
APE	88,265	91,964	4.2	95,672	1,01,875	6.5	1,04,134	1,12,885	8.4
VNB	27,212	27,952	2.7	29,935	30,941	3.4	33,467	34,745	3.8
VNB Margin (%)	30.8	30.4	-0.4ppts	31.3	30.4	-0.9ppts	32.1	30.8	-1.4ppts
EVOP	58,725	59,465	1.3	66,069	67,104	1.6	75,090	76,443	1.8
EV	4,10,307	4,10,648	0.1	4,70,909	4,71,777	0.2	5,40,315	5,41,938	0.3
PAT	10,736	11,878	10.6	13,667	14,935	9.3	14,211	15,704	10.5

Source: Company, Emkay Research

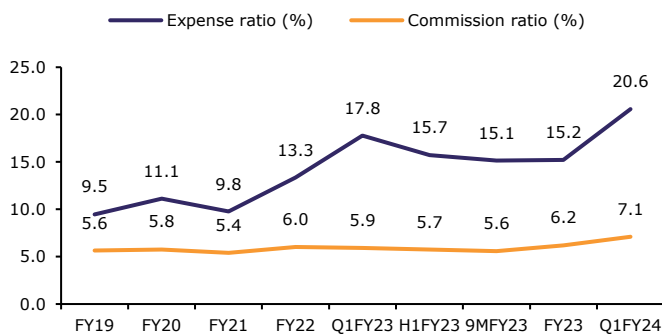
Story in Charts

Exhibit 5: ULIP dominates the product mix with 39% share



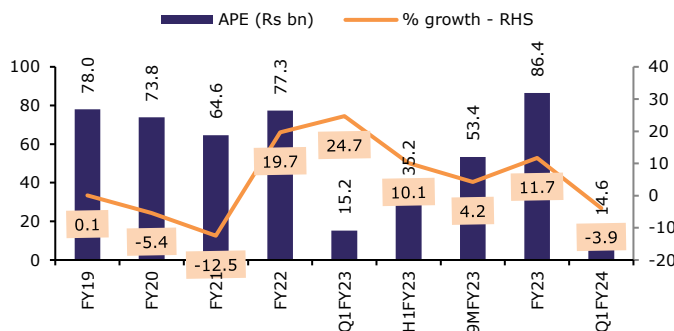
Source: Company, Emkay Research

Exhibit 7: Investments in the distribution channel result in increased costs



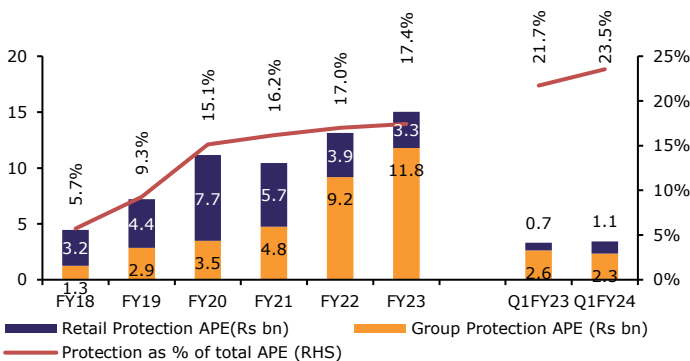
Source: Company, Emkay Research

Exhibit 9: APE declines YoY, largely due to the Budget impact



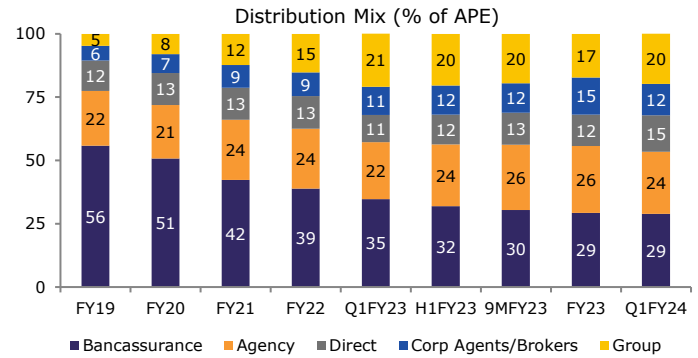
Source: Company, Emkay Research

Exhibit 11: Protection APE as a % of Total APE grows to 23.5%



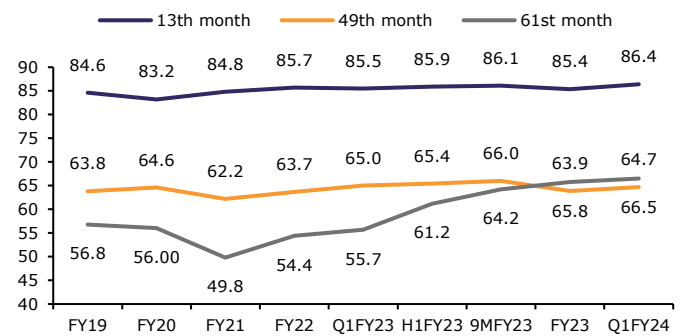
Source: Company, Emkay Research

Exhibit 6: Banca and Agency remain the major contributors to the distribution mix



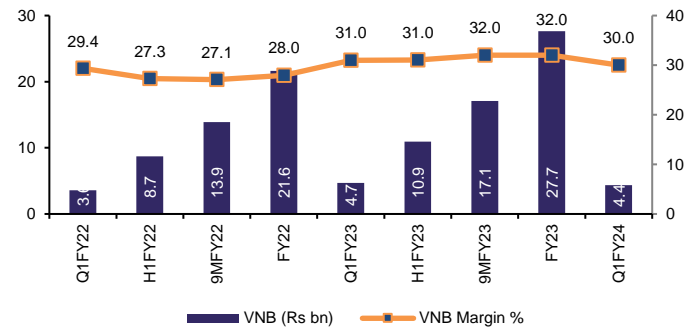
Source: Company, Emkay Research

Exhibit 8: Persistency improves across cohorts



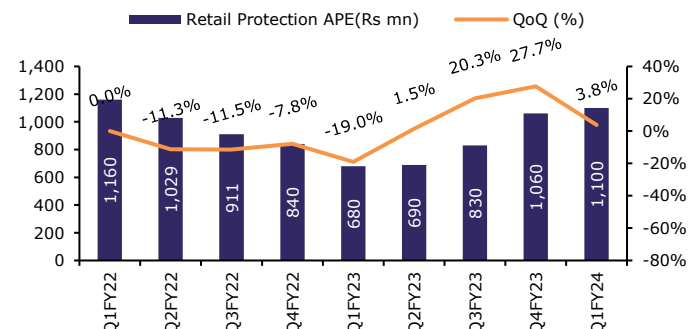
Source: Company, Emkay Research

Exhibit 10: VNB margin dips to 30% in Q1FY24



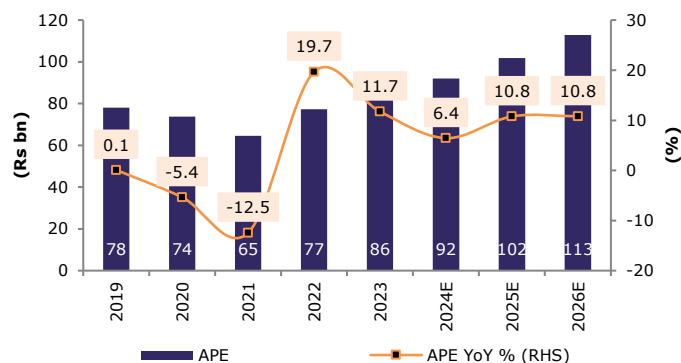
Source: Company, Emkay Research

Exhibit 12: Retail protection has started gaining traction



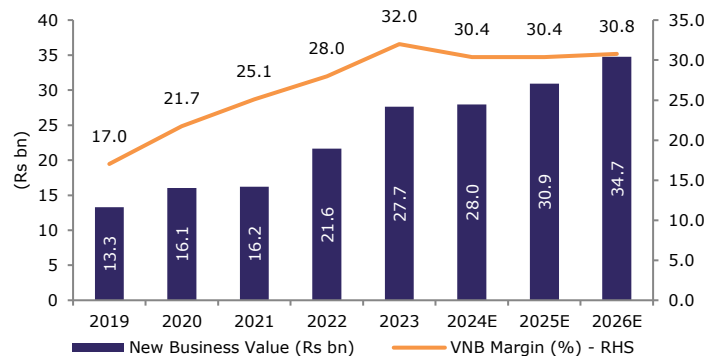
Source: Company, Emkay Research

Exhibit 13: APE to grow by 6.4% YoY in FY24E



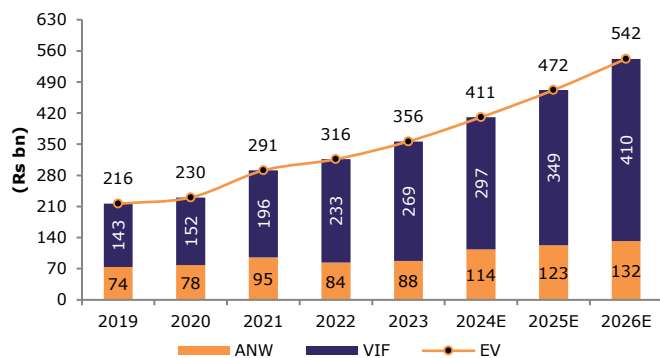
Source: Company, Emkay Research

Exhibit 14: IPRU Life expected to deliver 30.4% VNB margin by FY24E



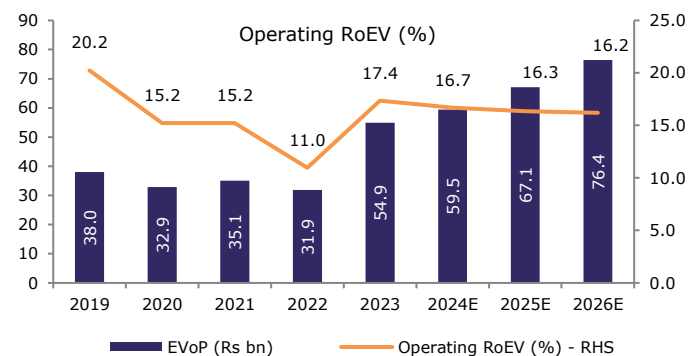
Source: Company, Emkay Research

Exhibit 15: IPRU Life's EV expected to grow to Rs542bn by FY26E



Source: Company, Emkay Research

Exhibit 16: IPRU Life expected to clock 16.7% Operating RoEV for FY24E



Source: Company, Emkay Research

Earnings Conference call Highlights

- Management said that the company continued to strengthen its product portfolio and invest in distribution channels.
- IPRU Life added more than 7,000 agents in Q1FY24. Total bank partners stood at 39 and the company added 40 non-bank partners, taking the total non-bank partnership count to 950.
- Expenses increased due to continued investments in distribution channels for increasing capacity.
- Management reiterated that its objective remains to increase the absolute value of VNB.
- Management stated that the area of focus will be APE growth. Margins are at top levels, whereas the main driver for VNB growth will be APE growth.
- Many channels are 18-24 months old; hence, such channels are not yet matured, and so the company remains focused on their growth.
- ICICI Bank is focused on protection and annuity. Growth is expected from other channels.
- Traditional pool has seen a dip in Non-par policies due to the Budget impact, and a shift is being seen towards Par and ULIP policies.
- Management said that the upshot of the investments over the last 15 months is being seen now.
- Management stated that within group protection, credit life continues to grow. Due to the Covid-related loading going away, Group Term Insurance (GTI) growth has seen some impact.
- In terms of distribution, ICICI Bank maintains its position. Around 87% of the business remains with the non-ICICI Bank channel as well as other channels which have grown well; hence, IPRU Life is in a better position than before.
- Focus remains on increasing penetration, improving customer stickiness and increasing share in distribution channels.
- Retail Protection has seen improvement; more policies are being sold and ticket size has increased.
- Improvement in Protection share has come through the group term business over the years.
- A decline in APE remains the major reason for the decline in VNB. A slow-down in the group term and non-par savings segments has resulted in reduced VNB margin.
- Proprietary channels contribute to almost half of the distribution channels; the company remains invested in these channels and is focused on increasing capacity.
- Constant Maturity Product has been introduced for tax-saving focused customers and is gaining strong traction.
- Attachment rates in credit life vary, based on the product and on partner priority.
- The Market has not stabilized in terms of commissions and the impact related to new Commission Regulations is still in the evolution stage.

ICICI Pru Life: Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Gross premium	3,74,580	3,99,328	4,34,567	4,78,965	5,32,944
Net premium	3,63,212	3,85,595	4,19,623	4,62,494	5,14,617
Investment income	2,49,695	99,646	2,37,343	2,03,477	2,19,754
Other income	22,737	19,540	14,690	12,486	10,613
Total revenue	6,35,645	5,04,781	6,56,966	6,65,971	7,34,371
Commission expense	16,729	18,639	21,543	24,206	26,934
Operating expense	36,730	45,832	51,194	54,112	59,181
Benefits paid (net)	2,93,588	3,10,042	3,25,652	3,56,981	3,84,311
Change in reserves	2,57,838	98,170	2,29,345	2,00,073	2,34,014
Total expenses	6,13,741	4,81,760	6,36,931	6,45,509	7,15,719
Surplus/Deficit	21,903	23,021	20,035	20,463	18,652
Trf from policyholders' acct	21,602	20,162	19,035	19,462	17,651
Shareholders' results	(13,654)	(11,193)	(6,262)	(3,403)	(764)
PBT	7,948	8,969	12,772	16,059	16,887
Tax expense	356	862	894	1,124	1,182
Reported PAT	7,592	8,107	11,878	14,935	15,704
PAT growth (%)	(20.6)	6.8	46.5	25.7	5.2
Adjusted PAT	7,592	8,107	11,878	14,935	15,704
Diluted EPS (Rs)	5.3	5.6	8.3	10.4	10.9
Diluted EPS growth (%)	(20.6)	6.8	46.5	25.7	5.2
DPS (Rs)	2.0	0.6	2.9	4.2	4.4
Dividend payout (%)	37.8	10.6	35.0	40.0	40.0
Effective tax rate (%)	4	10	7	7	7
Shares outstanding (mn)	1,437	1,437	1,437	1,437	1,437

Source: Company, Emkay Research

Miscellaneous Metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
APE	77,330	86,400	91,964	1,01,875	1,12,885
VNB	21,630	27,650	27,952	30,941	34,745
VNB margin (%)	28.0	32.0	30.4	30.4	30.8
APE growth (%)	19.7	11.7	6.4	10.8	10.8
VNB growth (%)	33.4	27.8	1.1	10.7	12.3
Operating ratios (%)					
NB commission/APE	15.3	15.3			
Commissions/TWRP	3.9	6.2			
Total exp ratio/TWRP	4.0	6.4			
Conservation ratio	79.3	80.7	83.0	84.0	85.0
Solvency ratio	204.5	208.9			
RoE	8.3	8.4	11.3	13.2	12.8
Historical metrics					
APE mix (%)	FY22	FY23	FY24E	FY25E	FY26E
A. Retail protection	5.1	3.8			
B. Group protection	11.9	13.6			
C. Savings - individual					
Non Linked	27.4	37.3			
Annuity	3.9	5.9			
ULIP	48.3	35.9			
D. Group Savings	3.4	3.5			
Persistency ratios (%)					
13th Month	85.7	85.4			
49th Month	63.7	63.9			

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	14,373	14,388	14,386	14,386	14,386
Reserves & surplus	75,865	83,730	91,450	1,00,411	1,09,834
Net worth	90,238	98,117	1,05,836	1,14,797	1,24,220
Borrowings	12,000	12,000	12,000	12,000	12,000
Policy liabilities	7,36,822	9,03,074	10,38,535	11,94,315	13,73,462
Prov for linked liab.	14,05,414	13,52,324	14,95,360	15,47,596	16,09,612
FFA	13,833	16,693	18,362	20,198	22,218
Current liabilities & prov	52,523	56,881	64,220	68,095	73,778
Total liabilities & equity	23,91,852	25,01,592	27,40,325	29,51,195	31,96,651
Shareholders' investment	98,469	98,514	1,07,991	1,16,259	1,25,929
Policyholders' investment	7,73,880	9,43,110	10,33,839	11,12,989	12,05,565
Assets to cover linked liab.	15,08,663	14,40,581	15,79,168	17,00,067	18,41,476
Current assets	49,075	57,171	62,627	67,446	73,056
Total assets	23,91,852	25,01,592	27,40,325	29,51,195	31,96,651
BV/share (INR)	63.7	70.2	75.6	81.8	88.4
EV/share (INR)	220.0	247.9	285.7	328.2	377.1
EVOP/share (INR)	22.2	38.2	41.4	46.7	53.2
Embedded value	3,16,250	3,56,340	4,10,648	4,71,777	5,41,938
ANW	83,600	87,820	1,13,637	1,22,598	1,32,021
VIF	2,32,650	2,68,520	2,97,011	3,49,179	4,09,918
VIF share in EV (%)	0.7	0.8	0.7	0.7	0.8
Total AUM	24,02,000	25,09,010	27,50,362	29,60,938	32,07,223
Investment yield (%)	11.5	4.5	9.5	7.6	7.6
Yield on PH funds (%)	11.6	4.3	9.5	7.5	7.5
Yield on SH funds (%)	10.2	8.9	9.3	9.2	9.2

Source: Company, Emkay Research

Valuation & key ratios					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	108.6	101.7	69.4	55.2	52.5
P/B (x)	9.0	8.2	7.6	7.0	6.5
P/EV (x)	2.6	2.3	2.0	1.7	1.5
P/EVOP (x)	25.8	15.0	13.9	12.3	10.8
Implied P/VNB (x)	38.1	29.8	29.5	26.7	23.7
Dividend yield (%)	0.3	0.1	0.5	0.7	0.8
EV account and RoEV					
Opening EV	2,91,060	3,16,250	3,56,340	4,10,648	4,71,777
Premium unwind	20,850	27,080	30,513	35,163	40,398
VNB	21,630	27,650	27,952	30,941	34,745
Operating variance	(10,560)	150	1,000	1,000	1,300
EVOP	31,920	54,880	59,465	67,104	76,443
Investment variance	(4,370)	(14,490)	(1,000)	0	0
Capital movement	(8,430)	(8,430)	(8,430)	(8,430)	(8,430)
Closing EV	3,16,250	3,56,340	4,10,648	4,71,777	5,41,938
Change in EV	25,190	40,090	54,308	61,130	70,161
RoEV (%)	11.0	17.4	16.7	16.3	16.2
Operating RoEV (%)	11.0	17.4	16.7	16.3	16.2
EVOP growth (%)	(9.0)	71.9	8.4	12.8	13.9
EV growth (%)	8.7	12.7	15.2	14.9	14.9
Core operating RoEV (%)	11.0	17.4	16.7	16.3	16.2
Unwind rate (%)	7.2	8.6	8.6	8.6	8.6
VNB-to-opening EV (%)	6.8	7.8	6.8	6.6	6.4

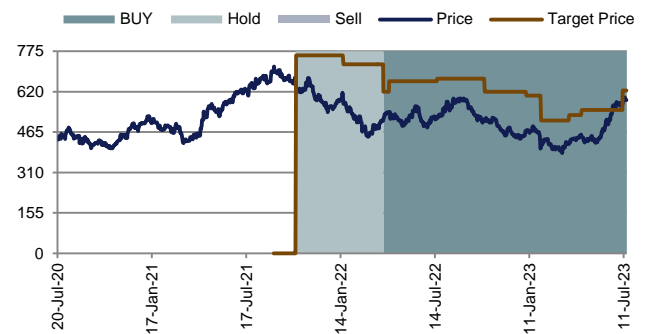
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
09-Jul-23	573	625	Buy	Avinash Singh
10-Jun-23	495	550	Buy	Avinash Singh
01-Jun-23	478	550	Buy	Avinash Singh
16-May-23	434	550	Buy	Avinash Singh
21-Apr-23	444	550	Buy	Avinash Singh
03-Apr-23	438	530	Buy	Avinash Singh
28-Mar-23	422	530	Buy	Avinash Singh
09-Mar-23	398	510	Buy	Avinash Singh
07-Feb-23	426	510	Buy	Avinash Singh
06-Feb-23	429	510	Buy	Avinash Singh
02-Feb-23	409	510	Buy	Avinash Singh
18-Jan-23	487	605	Buy	Avinash Singh
10-Jan-23	466	605	Buy	Avinash Singh
05-Jan-23	472	605	Buy	Avinash Singh
03-Jan-23	469	620	Buy	Avinash Singh
08-Dec-22	462	620	Buy	Avinash Singh
08-Nov-22	513	620	Buy	Avinash Singh
17-Oct-22	510	620	Buy	Avinash Singh
10-Oct-22	516	670	Buy	Avinash Singh
29-Sep-22	530	670	Buy	Avinash Singh
07-Sep-22	594	670	Buy	Avinash Singh
05-Sep-22	585	670	Buy	Avinash Singh
24-Aug-22	584	670	Buy	Avinash Singh
08-Aug-22	570	670	Buy	Avinash Singh
18-Jul-22	523	670	Buy	Avinash Singh
08-Jun-22	544	660	Buy	Avinash Singh
17-May-22	500	660	Buy	Avinash Singh
12-May-22	489	660	Buy	Avinash Singh
09-May-22	505	660	Buy	Avinash Singh
06-May-22	510	660	Buy	Avinash Singh
19-Apr-22	516	660	Buy	Avinash Singh
17-Apr-22	541	660	Buy	Avinash Singh
06-Apr-22	517	620	Buy	Avinash Singh
08-Feb-22	516	725	Hold	Avinash Singh
19-Jan-22	574	725	Hold	Avinash Singh
18-Jan-22	608	760	Hold	Avinash Singh
07-Dec-21	587	760	Hold	Avinash Singh
09-Nov-21	651	760	Hold	Avinash Singh
20-Oct-21	632	760	Hold	Avinash Singh
07-Sep-21	702	-	UR	Avinash Singh

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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