Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

ICICI Prudential Life Insurance

Q1 meets expectations persistency improves

Insurance	Sharekhan code: ICICIPRULI
Reco/View: Buy ↔	CMP: Rs. 559 / Price Target: Rs. 650 ↑

↑ 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 Jul 08, 2023

Low Risk

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

Source: Morningstar

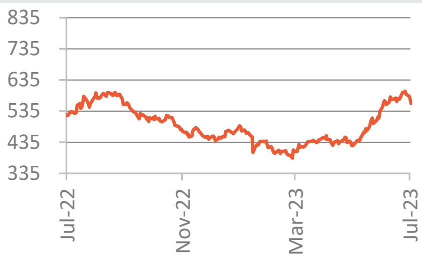
Company details

Market cap:	Rs. 80,476 cr
52-week high/low:	Rs. 616 / 381
NSE volume: (No of shares)	21.6 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	1.8	25.3	15.7	7.3
Relative to Sensex	-4.0	13.3	5.1	-17.5

Sharekhan Research, Bloomberg

Summary

- Value of new business (VNB) fell 7% y-o-y, while VNB margins dipped 100 bps y-o-y to 30%. APE declined by 4% y-o-y.
- Despite strong growth in retail protection and stable non-linked savings share, VNB margins were lower due to a change in product mix towards par and ULIP products.
- ICICI Bank channel continued to drag growth. Overall, ICICI Bank's contribution declined to 13% in the APE mix versus a peak of 59% in FY2019. Agency/partnership channel grew at a slower pace 5%/7% y-o-y, while direct channel reported strong growth of 28.5% y-o-y.
- Stock trades at 2.0x/1.7x its FY2024E/FY2025E EVPS. We maintain a Buy rating and raise PT to Rs. 650.

ICICI Prudential Life Insurance (IPRU) reported a 4% decline in APE in Q1FY24. Value of new business (VNB) dipped by ~7% y-o-y, while VNB margins contracted to 30% vs 31% in Q1FY23. A change in product mix towards par and ULIPs dragged VNB margins. With a change in taxation, demand for high-ticket non-par policies was lower. This has likely led to a shift in product mix. The company reported a rise persistency ratio in all buckets. The 13th-month persistency ratio improved by 90 bps y-o-y to 86.4%, while the 61st-month persistency ratio improved by 1080 bps y-o-y to 66.5%. Share of protection in the APE mix improved to ~24% in Q1FY24 vs 17% in FY2023. Share of non-linked savings products declined to ~28% in Q1FY24 vs 37% in FY2023, while the share of ULIPs inched higher to 39% vs 36% in FY2023. A higher focus on protection business would support margins, while ULIPs and par would partly offset. The company looks to optimise channel and product mix to improve persistency and lowering dependence on the ICICI Bank channel.

Key positives

- Retail protection APE grew by 62% y-o-y in Q1FY2024 following declines of 17% and 31% in FY2023 and FY2022 respectively.
- Persistency ratios improved across buckets.

Key negatives

- ICICI Bank channel continued to decline by 35% y-o-y in 1QFY24 and the contribution to APE is now down to 13%.
- Cost ratios were higher. Cost/APE has inched up 398 bps yoy and 488 bps qoq to 27.7%. Expenses are high due to investments in new partnerships and agency channel.

Management Commentary

- Company remained confident of delivering strong VNB growth through premium growth and guided that Protection and Annuity will continue to be growth drivers.
- Company continues to invest in agency channel and channel managers increased to 4,000 from 3,000. Management stated that the addition of managers led to a 5-7% incremental growth in 1QFY24.
- Management also stated that investment in proprietary channels is expected to drive sustained growth.

Our Call

Valuation – We maintain our Buy rating on the stock with a revised PT of Rs. 650: IPRU trades at 2.0x/1.7x its FY2024E/FY2025E EVPS. The strategy of approaching customers with a wider product bouquet through all channels will gradually support 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 going forward.

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	16.2	16.1
P/EV (x)	2.5	2.3	2.0	1.7
P/VNB (x)	36.9	29.3	28.4	26.1

Source: Company, Sharekhan Research

Key result highlights

- **Product mix:** Retail protection growth has shown robust growth (62% y-o-y in Q1FY2024). Annuity/ group savings/ Non-linked products' APE declined by 7%/2%/4% y-o-y. ULIPs are witnessing a resurgence in demand due to the unchanged tax advantage they offer as compared to the changes in taxation for debt MFs. To cater to this increased demand, a constant maturity product was launched. APE growth is expected to pick up as the relevance of the parent bank is incrementally getting lower. Share of protection in the APE mix improved to ~24% in Q1FY24 vs 17% in FY2023. The share of non-linked savings declined to ~28% in Q1FY24 vs 37% in FY2023, while the share of ULIPs inched higher to 39% vs 36% in FY2023. Company looks to optimize its channel and product mix with a focus on improving persistency and lower dependence on ICICI Bank that should help going ahead. The company has launched new products including I-shield (a combination of life and health insurance), two new optional attachments -accident disability and death riders, and a constant maturity fund.
- **Improvement in persistency ratio:** IPRU reported improvement in persistency in all buckets. Persistency was up 40-1,080 bps y-o-y across buckets. Rise in persistency is an important lever for margin expansion/ higher operating variance for the company. The 1,080 bps improvement in 61st month persistency is likely driven by the shift in product mix from ULIPs toward non-linked products over the past few years.
- **Distribution mix:** ICICI Bank continues to go slow in insurance distribution. Overall contribution has declined to 13% in Q1FY24 from the peak of 56% in FY2019. Growth at other banca partners such as AU SFB, IDFC Bank, IndusInd Bank and RBL was also weak in 1QFY24. The company added 7,481 advisors in the quarter and expanded its reach through various tie-ups, providing access to more than 19,000 bank branches. Furthermore, it has formed 957 non-bank partnerships, with 49 of them established in the current quarter. It is looking to add new partners and/or enhancing current relationships as the regulations permit more corporate partnerships. The company continues to invest in the agency channel; channel managers increased to 4,000 from 3,000.

Results — Rs cr

Particulars	Q1FY24	Q1FY23	Q4FY23	y-o-y	q-o-q
New Business Premium	3,217	3,371	5,762	-5%	-44%
Net Premium	7,020	6,884	12,629	2%	-44%
Income from investments	16,031	-8,671	-1,905	NM	NM
Other income	45	33	44	34%	2%
Total Income	23,541	-1,461	11,500	-1711%	105%
Net Commission	383	306	754	25%	-49%
Operating Expenses	1,111	918	1,567	21%	-29%
Provision for taxes	9	44	47	-80%	-81%
Surplus/(Deficit)	201	395	859	-49%	-77%
PBT	208	157	317	33%	-34%
PAT	207	157	235	32%	-12%

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Large opportunity but regulatory risk higher

Insurance penetration is still very low as compared to international benchmarks. 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 with the right mix of products, services, and distribution are likely to gain disproportionately from the opportunity. However, there is a high risk of regulatory changes which can impact profitability.

■ Company Outlook – Business expected to improve constructively going forward

Diversifying business mix, and distribution mix are key important pillars. IPRU has a strong distribution network and bancassurance channel, which is a strong growth lever. A ULIP-heavy top line was always prone to capital market-linked volatility, we believe the growing proportion of the pure-protection business and savings business are long-term positives. Protection and Annuity would be the growth drivers. Higher protection business will also support its margins and the company is looking to optimize its channel and product matrix with a focus on improving persistency and lower dependence on ICICI Bank which is a key positive.

■ Valuation – We maintain our Buy rating on the stock with a revised PT of Rs. 650

IPRU trades at 2.0x/1.7x its FY2024E/FY2025E EVPS. The strategy of approaching customers with a wider product bouquet through all channels will gradually support 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 going forward.

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	559	80,476	28.4	26.1	2.0	1.7	16.2	16.1
HDFC Life Insurance Company	659	141,632	35.9	30.3	3.0	2.6	18.4	18.0

Source: Company, Sharekhan Research

About the 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. The company is the third-largest private sector life insurance company in the country.

Investment theme

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Key Risks

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Additional Data

Key management personnel

Mr. Anup Bagchi	Managing Director and Chief Executive Officer
Mr. Dhiren Salian	Chief Financial Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	ICICI BANK LTD.	51.3
2	PRUDENTIAL CORP HOLDINGS LTD.	22.1
3	COMPASSVALE INVESTMENTS PTE. LTD.	2.0
4	BLACKROCK INC.	1.9
5	SBI FUNDS MANAGEMENT LTD.	1.6
6	CAMAS Inv PTE Ltd	1.5
7	FRANKLIN RESOURCES INC.	1.1
8	VANGUARD GROUP INC.	0.9
9	ICICI PRUDENTIAL ASSET MANAGEMENT CO. LTD.	0.9
10	BAILLIE GIFFORD & CO.	0.9

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

Sharekhan

by BNP PARIBAS

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