

HOLD ICICI Pru Life

Your success is our success

Downgrade to HOLD, on growth & margin uncertaintyBFSI ▶ Result Update ▶ **October 18, 2023****TARGET PRICE (Rs): 610**

IPRU reported relatively weaker performance in H1FY24, wherein the negative surprise on VNB margin (28.8% vs Emkay: 30%) added to the challenge of the persistent weak growth (0.1% YoY vs Emkay: 2.6% YoY). Although the correct measures are being undertaken by Management for resurrecting top-line growth, these will take time to bear fruit; however, any positive outcome will be preceded by surge in costs. Additionally, we foresee some growth challenges emerging in the non-ICICIB banca channel, beset by a higher base and addition of new life insurers. Overall, we see the growth & margin concerns sticking (except in Q3FY24, when the lower base would be favorable for growth). Accounting for such developments, we cut our FY24-26E APE by ~5% and VNB by ~7%; we downgrade the stock to HOLD from Buy, with revised Sep-24E TP of Rs610/share (implied FY25 P/EV: 1.8x).

ICICI Pru Life: Financial Snapshot

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
GWP	3,74,580	3,99,328	4,20,401	4,61,408	5,11,754
APE	77,330	86,400	87,022	97,856	1,08,393
VNB	21,630	27,650	26,043	28,912	32,474
VNB margin (%)	28.0	32.0	29.9	29.5	30.0
APE growth (%)	19.7	11.7	0.7	12.5	10.8
VNB growth (%)	33.4	27.8	(5.8)	11.0	12.3
Adj. EPS (Rs)	5.3	5.6	6.4	7.7	8.5
EV	3,16,250	3,56,340	4,15,657	4,76,746	5,46,449
EVOP	31,920	54,880	57,555	65,504	74,597
Op. RoEV (%)	11.0	17.4	16.2	15.8	15.6
EVPS (INR)	220.0	247.9	289.2	331.7	380.2
P/EV (x)	2.4	2.2	1.8	1.6	1.4
P/EVOP (x)	24.0	14.0	13.3	11.7	10.3

Source: Company, Emkay Research

Growth moderation, coupled with dip in VNB margins

IPRU reported flat YoY APE growth at Rs35.2bn for H1FY24, a 2.4% miss on our estimate. A shift in the product mix towards ULIP resulted in a significant 2.2ppt YoY dip in margins to 28.8% (Emkay: 30%) during H1FY24. The moderation in growth and fall in margins led to a 7% decline in VNB to Rs10.2bn vs. our estimate of Rs10.8bn. Driven by positive economic variance, EV grew to Rs385.3bn during H1FY24, coming at a slight miss on our estimate of Rs388bn. Investments across distribution channels caused a spike in the total expense/TWRP ratio to 26.2% during H1FY24 as against 21.6% during H1FY23. Despite the weaker growth, the surplus emergence from policyholders' accounts was muted and was compensated by higher-than-usual investment income in shareholders' accounts, leading to a reasonable PAT of Rs4.5bn (Emkay: Rs4.6bn).

Growth outlook remains uncertain; multiple factors to weigh down on margins

Management is attempting to address the growth conundrum through continual investments across distribution channels like Agency, Banca and Brokers & partnerships. Such actions are likely to help in improving growth, but we also anticipate some challenges emerging in the non-ICICIB banca channel on account of a higher base and entry of more life insurers in the domain. Against such a backdrop, we see an uncertain APE growth trajectory for IPRU, but such expenses related to growth initiatives, higher commissions and product-profile changes will pull down margins.

We cut FY24-26E VNB by ~7%; downgrade ICICI Pru Life to HOLD

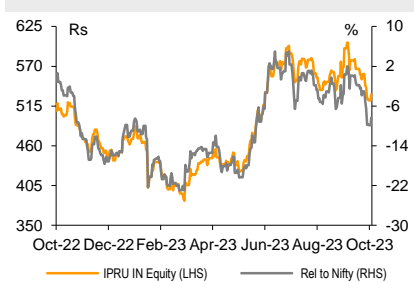
Factoring in the developments over H1FY24 as well as the uncertain growth & margin outlook, we have adjusted our FY24-26 estimates; hence, our FY24-26E APE reduces by ~5% and our VNB margin sees a ~1ppt nip. Resultantly, the FY24-26E VNB gets slashed by ~7%. Such an uncertain growth/margin outlook does not inspire enough confidence in us and, despite IPRU's stock valuation being favorable, we see better value elsewhere in the sector. We downgrade the stock to HOLD, with our Sep-24E TP revised to Rs610/share.

Target Price – 12M	Sep-24
Change in TP (%)	-7.6
Current Reco.	HOLD
Previous Reco.	BUY
Upside/(Downside) (%)	14.3
CMP (17-Oct-23) (Rs)	533.7

Stock Data	Ticker
52-week High (Rs)	616
52-week Low (Rs)	381
Shares outstanding (mn)	1,439.6
Market-cap (Rs bn)	768
Market-cap (USD mn)	9,228
Net-debt, FY22E (Rs mn)	0
ADTV-3M (mn shares)	2
ADTV-3M (Rs mn)	1,047.0
ADTV-3M (USD mn)	12.6
Free float (%)	-
Nifty-50	19,812
INR/USD	83.3
Shareholding, Jun-23	
Promoters (%)	73.3
FPIs/MFs (%)	15.4/6.3

Price Performance

(%)	1M	3M	12M
Absolute	(10.3)	(8.4)	4.7
Rel. to Nifty	(8.6)	(8.8)	(8.5)

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

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Exhibit 1: ICICI Pru Life – Q2/H1FY24 Financial Performance

(Rs bn)	H1FY24	H1FY23	%YoY	H1FY24E	Variance	Q2FY24	Q2FY23	% YoY	Q2FY24E	Variance
APE	35.2	35.2	0.1	36.1	-2.4%	20.6	20.0	3.2	21.5	-4.0%
- o/w Savings	27.9	28.1	-0.7			16.7	16.2	3.3		
- o/w Protection	7.3	7.1	3.4			3.9	3.8	2.6		
- Protection APE (% of total APE)	20.8	20.2	0.7ppts			18.9	19.0	-0.1ppts		
Value of New Business	10.2	10.9	-7.1	10.8	-6.3%	5.8	6.2	-7.1	6.4	-10.5%
New Business Margin (%)	28.8	31.0	-2.2ppt	30.0	-1.2ppt	28.0	31.1	-3.1ppt	30.0	-2.0ppt
Embedded Value	385.3	326.5	18.0	388.0	-0.7%					
Total New Business Premium	77.5	76.2	1.7			45.3	42.5	6.6		
Renewal premium	100.5	95.4	5.4			58.9	56.4	4.4		
Gross written premium	178.0	171.6	3.7			104.3	99.0	5.4		
PAT	4.5	3.6	27.0	4.6	-2.3%	2.4	2.0	22.7	2.6	-4.2%
AUM	2,719.0	2,443	11.3	2,771	-1.9%					
SH Equity	107.2	96.3	11.3							
13th month persistency (%)	86.9	85.9	1.0ppt							
49th month persistency (%)	65.8	65.4	0.4ppt							
61st month persistency (%)	65.0	61.2	3.8ppts							
Solvency ratio (%)	199.4	200.7	-1ppt							

Source: Company, Emkay Research

Exhibit 2: Appraisal methodology-based valuation for IPRU Life

Parameter (Rs bn)	Value
FY24-39E APE CAGR	7.5%
FY24-39E VNB CAGR	7.5%
Terminal growth rate	3.0%
Cost of Equity	13.5%
FY24 EV	416
Present value of future new business	401
Appraisal value - Mar-24	820
Share count (mn)	1,437
Appraisal value per share (Rs) - Mar-24	571
Target price (Rs) - Sep-24	610

Source: Company, Emkay Research

Exhibit 3: Implied valuation multiples for IPRU Life

Target multiple on FY25E numbers	Rs610
P/EV	1.8x
RoEV (%)	15.8
P/Op. EV Profit	13.4x
Implied FY25E VNB multiple	13.9x
Current price multiple on FY25 estimates	Rs534
P/EV	1.6x
RoEV (%)	15.8
P/EVOP	11.7x
Implied FY25E VNB multiple	12.2x

Source: Company, Emkay Research

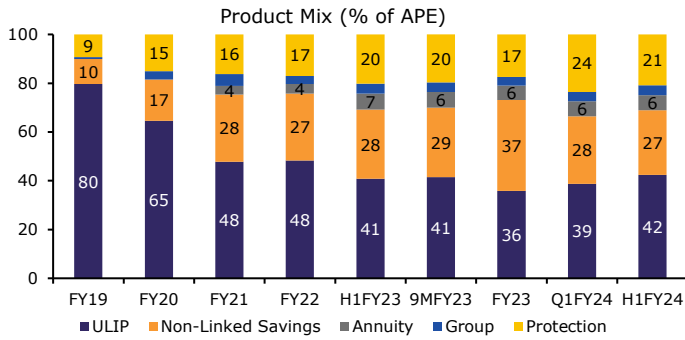
Exhibit 4: Changes in Estimates

(Rs mn)	FY24E			FY25E			FY26E		
	Old	Revised	% Change	Old	Revised	% Change	Old	Revised	% Change
APE	91,964	87,022	-5.4	1,01,875	97,856	-3.9	1,12,885	1,08,393	-4.0
VNB	27,952	26,043	-6.8	30,941	28,912	-6.6	34,745	32,474	-6.5
VNB margin (%)	30.4	29.9	-0.5ppt	30.4	29.5	-0.8ppt	30.8	30.0	-0.8ppt
EVOP	59,465	57,555	-3.2	67,104	65,504	-2.4	76,443	74,597	-2.4
EV	4,10,648	4,15,657	1.2	4,71,777	4,76,746	1.1	5,41,938	5,46,449	0.8
PAT	11,878	9,253	-22.1	14,935	11,037	-26.1	15,704	12,236	-22.1

Source: Company, Emkay Research

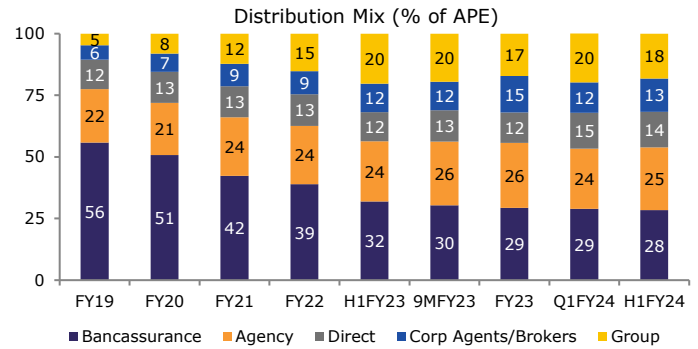
Story in Charts

Exhibit 5: Share of ULIP in the APE product mix increases to 42%



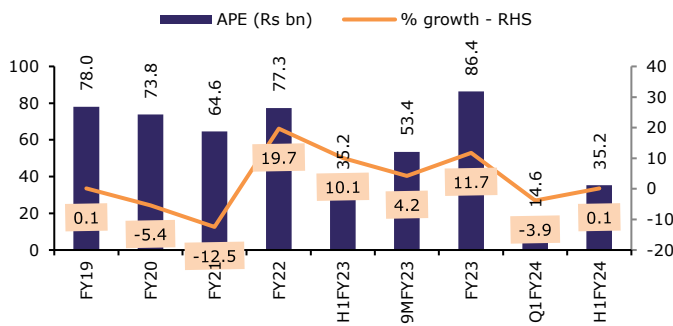
Source: Company, Emkay Research

Exhibit 6: Agency channel is now one among the large distributors



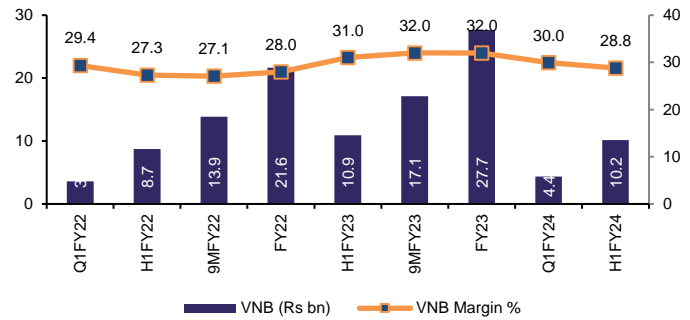
Source: Company, Emkay Research

Exhibit 7: IPRU reports flat APE growth for H1FY24



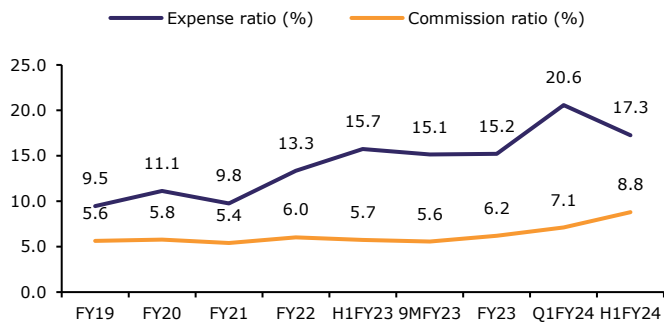
Source: Company, Emkay Research

Exhibit 8: VNB margin witnesses a dip to 28.8% during H1FY24



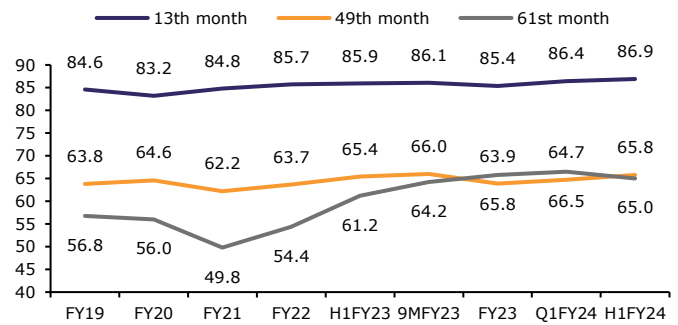
Source: Company, Emkay Research

Exhibit 9: Commission ratio inches up, to 8.8% during H1FY24



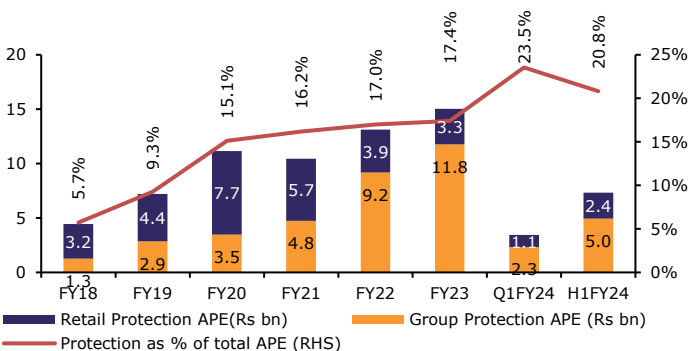
Source: Company, Emkay Research

Exhibit 10: The 13th- and 49th-month Persistency witnesses sequential improvement



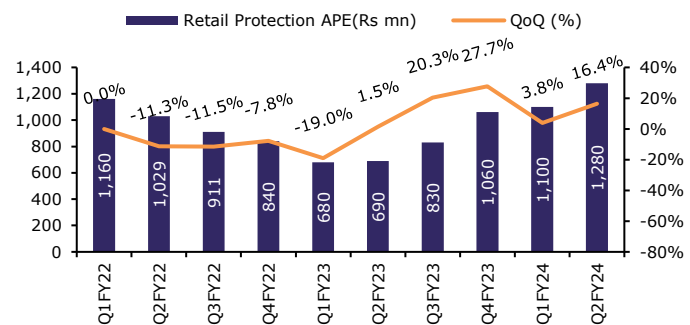
Source: Company, Emkay Research

Exhibit 11: Protection APE, as a % of total APE, grows to 20.8%



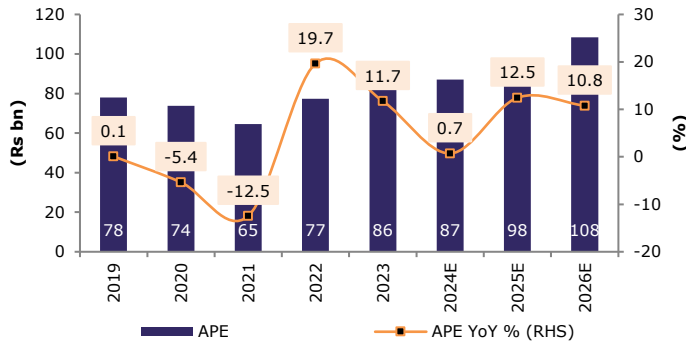
Source: Company, Emkay Research

Exhibit 12: IPRU delivers 16.4% QoQ growth in Retail Protection APE



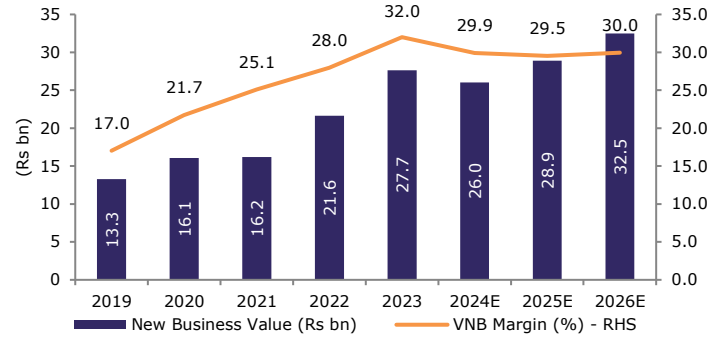
Source: Company, Emkay Research

Exhibit 13: We build in flat APE growth for FY24E



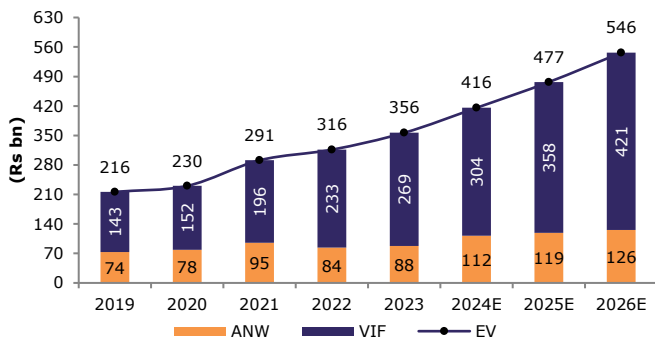
Source: Company, Emkay Research

Exhibit 14: VNB margin expected to decline to 29.9% in FY24E



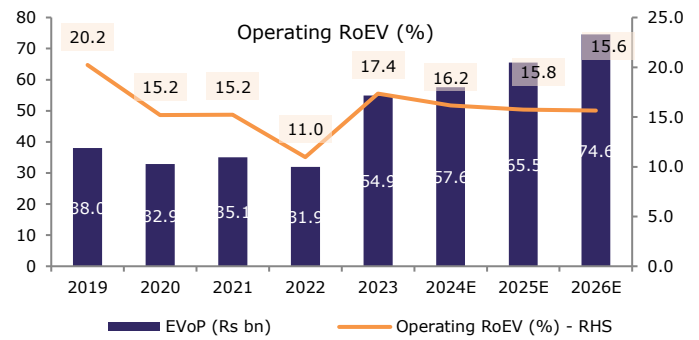
Source: Company, Emkay Research

Exhibit 15: IPRU Life's EV expected to grow to Rs546bn by FY26E



Source: Company, Emkay Research

Exhibit 16: IPRU Life likely to clock 16.2% Operating RoEV for FY24E



Source: Company, Emkay Research

Earnings Conference Call Highlights

- IPRU recently launched its ICICI Pru Stack, a suit platform encompassing digital capabilities for driving differentiated customer experiences. Through the ICICI Pru Stack platform, IPRU intends to become the most 'partnerable' insurer across the industry, with the integration of a new partner expected to be completed within a short span of two weeks.
- Management said that the challenges faced at key distribution channels in the past have been carefully migrated by the distribution diversification; as a result, the company is not dependent on any single distributor and the diversified distribution mix is expected to drive long-term sustainable growth for IPRU.
- IPRU has made investments in demand generation tools for expanding the agent's network market and the analytics-backed, digital-product nudges have been aligned to the right customer, as per their need. With this, Management expects the agency channel to contribute a larger portion to the overall distribution mix.
- Given the taxation on high-ticket-size non-linked policies of >Rs5lakh, Management sees this business shifting to linked products and part guaranteed products. Hence, the share of ULIPs in the APE mix has increased.
- During H1FY23, the company witnessed 73% growth in Retail Protection APE. Given the strong growth, Management believes that Retail Protection remains a multi-decadal opportunity, owing to the current low penetration of protection products.
- The Group Term Insurance product faced some challenges due to decreased prices on account of improvement post Covid-19 and increased competitive pressures. Management said that the company would not chase growth in the segment and would underwrite the business only if it matched the risk-reward expectations.
- The shift in VNB margin was primarily due to increased share of ULIPs and lower share of non-par products.
- Shareholders' investment income saw higher yields due to booking of profits in equity investments, given the buoyant movement in equity markets.
- Management said that its objective is to bring efficiencies in the 'savings' line of business, whereas its strategy to grow the protection business remains intact.
- Agency growth has been muted, largely due to the sluggish performance in Sep-2023. The company is applying analytics in order to boost the channel.
- The Direct business and the Agency business constitute 50% of the Retail business, which has grown well due to the up-selling efforts of the channel on the existing base. Management said that this channel is backed by considerable analytics, for offering the most appropriate products to customers.
- Growth in the Credit Life Protection product is well ahead of credit growth in the economy due to rise in the number of banking partners and increase in attachments.
- Gift Pro, Ishield, Protect and Gain, and Constant Maturity Fund are various innovative products launched by the company in recent quarters. These products have gained good traction post their launch.
- Management said that ICICI Bank preferred to distribute the protection and annuity range of products and has delivered 45% YoY growth in the protection segment. The de-growth in the channel has been reducing MoM, and the company will have a base effect playing out in the ICICI Bank channel, starting Q3FY24.
- Management explained that the product mix of each distribution partner is not similar to the product mix at the company level; hence, the color of the product mix is drawn from the customer segments of partners.
- There is no change in retention strategy for protection products. From Q4, Retail Protection growth should normalize, given the higher base. Mgmt said that all channels witnessed good traction in Retail Protection products, with online channels faring well.

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	4,20,401	4,61,408	5,11,754
Net premium	3,63,212	3,85,595	4,05,944	4,45,541	4,94,155
Investment income	2,49,695	99,646	2,36,827	2,02,183	2,17,420
Other income	22,737	19,540	19,827	15,861	13,482
Total revenue	6,35,645	5,04,781	6,42,771	6,47,724	7,11,576
Commission expense	16,729	18,639	20,840	23,319	25,863
Operating expense	36,730	45,832	49,525	52,128	56,828
Benefits paid (net)	2,93,588	3,10,042	3,25,652	3,55,496	3,81,082
Change in reserves	2,57,838	98,170	2,18,474	1,87,304	2,19,062
Total expenses	6,13,741	4,81,760	6,23,390	6,28,012	6,93,665
Surplus/Deficit	21,903	23,021	19,381	19,713	17,910
Trf from policyholders' acct	21,602	20,162	18,381	18,712	16,909
Shareholders' results	(13,654)	(11,193)	(8,432)	(6,844)	(3,752)
PBT	7,948	8,969	9,949	11,868	13,157
Tax expense	356	862	696	831	921
Reported PAT	7,592	8,107	9,253	11,037	12,236
PAT growth (%)	(20.6)	6.8	14.1	19.3	10.9
Adjusted PAT	7,592	8,107	9,253	11,037	12,236
Diluted EPS (Rs)	5.3	5.6	6.4	7.7	8.5
Diluted EPS growth (%)	(20.6)	6.8	14.1	19.3	10.9
DPS (Rs)	2.0	0.6	2.3	3.1	3.4
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	87,022	97,856	1,08,393
VNB	21,630	27,650	26,043	28,912	32,474
VNB margin (%)	28.0	32.0	29.9	29.5	30.0
APE growth (%)	19.7	11.7	0.7	12.5	10.8
VNB growth (%)	33.4	27.8	(5.8)	11.0	12.3
Operating ratios (%)					
NB commission/APE	15.3	15.3	NA	NA	NA
Commissions/TWRP	3.9	6.2	NA	NA	NA
Total exp ratio/TWRP	4.0	6.4	NA	NA	NA
Conservation ratio	79.3	80.7	83.0	84.0	85.0
Solvency ratio	204.5	208.9	NA	NA	NA
RoE	8.3	8.4	8.9	10.0	10.4

Historical metrics					
APE mix (%)	FY22	FY23	FY24E	FY25E	FY26E
A. Retail protection	5.1	3.8	NA	NA	NA
B. Group protection	11.9	13.6	NA	NA	NA
C. Savings - individual	0.0	0.0	NA	NA	NA
Par	27.4	37.3	NA	NA	NA
Non-Par	3.9	5.9	NA	NA	NA
ULIP	48.3	35.9	NA	NA	NA
D. Group Savings	3.4	3.5	NA	NA	NA
Persistency ratios (%)					
13th Month	85.7	85.4	NA	NA	NA
49th Month	63.7	63.9	NA	NA	NA

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	89,744	96,366	1,03,708
Net worth	90,238	98,117	1,04,130	1,10,752	1,18,094
Borrowings	0	0	0	0	0
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	14,84,489	15,23,956	15,71,019
FFA	13,833	16,693	18,362	20,198	22,218
Current liabilities & prov	52,523	56,881	65,095	70,322	76,950
Total liabilities & equity	23,91,852	25,01,592	27,27,748	29,23,510	31,51,933
Shareholders' investment	98,469	98,514	1,07,542	1,15,282	1,24,335
Policyholders' investment	7,73,880	9,43,110	10,29,539	11,03,636	11,90,298
Assets to cover linked liab.	15,08,663	14,40,581	15,72,599	16,85,782	18,18,156
Current assets	49,075	57,171	62,340	66,814	72,034
Total assets	23,91,852	25,01,592	27,27,748	29,23,510	31,51,933
BV/share (INR)	63.7	70.2	74.4	79.0	84.1
EV/share (INR)	220.0	247.9	289.2	331.7	380.2
EVOP/share (INR)	22.2	38.2	40.1	45.6	51.9
Embedded value	3,16,250	3,56,340	4,15,657	4,76,746	5,46,449
ANW	83,600	87,820	1,11,930	1,18,553	1,25,894
VIF	2,32,650	2,68,520	3,03,727	3,58,194	4,20,555
VIF share in EV (%)	0.7	0.8	0.7	0.8	0.8
Total AUM	24,02,000	25,09,010	27,38,909	29,36,027	31,66,562
Investment yield (%)	11.5	4.5	9.6	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	12.2	9.2	9.2

Source: Company, Emkay Research

Valuation & key ratios					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	101.0	94.6	82.9	69.5	62.7
P/B (x)	8.4	7.6	7.2	6.8	6.3
P/EV (x)	2.4	2.2	1.8	1.6	1.4
P/EVOP (x)	24.0	14.0	13.3	11.7	10.3
Implied P/VNB (x)	35.5	27.7	29.5	26.5	23.6
Dividend yield (%)	0.4	0.1	0.4	0.6	0.6
EV account and RoEV					
Opening EV	2,91,060	3,16,250	3,56,340	4,15,657	4,76,746
Premium unwind	20,850	27,080	30,513	35,592	40,823
VNB	21,630	27,650	26,043	28,912	32,474
Operating variance	(10,560)	150	1,000	1,000	1,300
EVOP	31,920	54,880	57,555	65,504	74,597
Investment variance	(4,370)	(14,490)	5,000	0	0
Capital movement	(4,050)	40	(2,360)	(300)	(3,328)
Other changes	0	0	0	0	0
Closing EV	3,16,250	3,56,340	4,15,657	4,76,746	5,46,449
Change in EV	25,190	40,090	59,317	61,089	69,703
RoEV (%)	11.0	17.4	16.2	15.8	15.6
Operating RoEV (%)	11.0	17.4	16.2	15.8	15.6
EVOP growth (%)	(9.0)	71.9	4.9	13.8	13.9
EV growth (%)	8.7	12.7	16.6	14.7	14.6
Core operating RoEV (%)	11.0	17.4	16.2	15.8	15.6
Unwind rate (%)	7.2	8.6	8.6	8.6	8.6
VNB-to-opening EV (%)	6.8	7.8	6.3	6.1	5.9

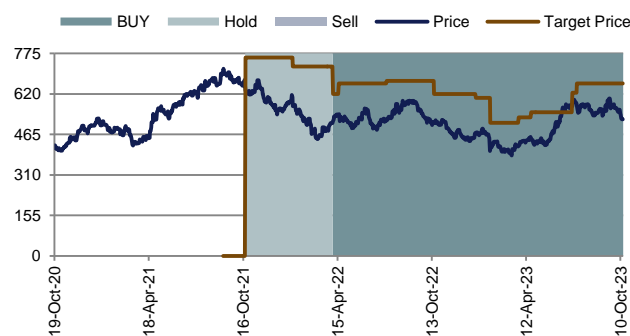
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
09-Oct-23	544	660	Buy	Avinash Singh
04-Oct-23	558	660	Buy	Avinash Singh
08-Sep-23	557	660	Buy	Avinash Singh
21-Aug-23	538	660	Buy	Avinash Singh
09-Aug-23	578	660	Buy	Avinash Singh
18-Jul-23	575	660	Buy	Avinash Singh
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: Company, Bloomberg, Emkay Research

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