Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

ICICI Prudential Life Insurance

Weak quarter, reasonable valuation

Insurance	Sharekhan code: ICICIPRULI
Reco/View: Buy ↔	CMP: **Rs. 521** · 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 Aug 08, 2023

Low Risk

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

Source: Morningstar

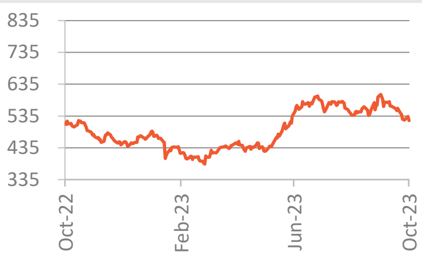
Company details

Market cap:	Rs. 75,077 cr
52-week high/low:	Rs. 616 / 381
NSE volume: (No of shares)	20.0 lakh
BSE code:	540133
NSE code:	ICICIPRULI
Free float: (No of shares)	38.9 cr

Shareholding (%)

Promoters	73.3
FII	15.5
DII	6.4
Others	4.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-13.6	-9.4	15.8	1.6
Relative to Sensex	-10.3	-8.7	7.2	-11.8

Sharekhan Research, Bloomberg

Summary

- ICICI Pru reported ~3% y-o-y growth in new business premium APE (in line with estimates); however, value of new business (VNB) fell by 7% y-o-y (~8% below estimates) resulting in VNB margins at 28% vs. 31.1% y-o-y.
- APE growth remained weak, led by continued drag from ICICI Bank channel (down 15% yoy) and lower group business. VNB margins were lower due to increased in share of ULIPs and higher commission cost to third-party channels.
- The company targets to achieve industry-level growth in APE for which the company has been continuously investing. Margins are likely to remain under pressure in the near term impacted by product mix and higher cost.
- The stock trades at 1.8x/1.6x its FY2024E/FY2025E EVPS. We maintain our Buy rating with an unchanged PT of Rs. 650 as valuations seem to factor all concerns.

ICICI Prudential Life Insurance (IPRU) reported flat y-o-y growth in APE in H1FY2024. Value of new business (VNB) fell by ~7% y-o-y in H1FY2024, while VNB margins stood at ~28.8% vs. 31.0%. Weak volumes through the ICICI Bank channel, a shift in the product mix, and higher cost have resulted in the subpar performance. The company reported improvement in persistency in all buckets. Persistency was up 40-380 bps y-o-y across buckets. In Q2FY2024, Individual protection and ULIP grew by 84% and 13%, respectively, while non-linked savings (-8% y-o-y), group protection (-15% y-o-y), and annuity (-7% y-o-y) witnessed a decline. A higher focus on the protection business would likely support margins, but ULIPs and Par would partly offset. On the distribution front, banca channel witnessed a 4% y-o-y decline impacted by a 16% dip in the ICICI Bank channel. Other banca channel grew by 13% y-o-y. Agency and direct channels grew by 4% and 19%, respectively.

Key positives

- Individual retail protection APE grew by 84% y-o-y in Q2FY2024.
- Persistency ratios improved across buckets.

Key negatives

- ICICI Bank channel continued to decline by 15% y-o-y in Q2FY2024 and the contribution to APE is now down to 14%.
- Expenses of management increased by 31% y-o-y in Q2FY2024, driven by 68% y-o-y growth in commissions. Operating expenses were also elevated (up 18% y-o-y) due to higher advertising expenses.

Management Commentary

- VNB margin was lower due to the product mix as there is an underlying shift from high-ticket business towards ULIPs and PAR vs. non-PAR earlier. ICICI Bank is more focused on growing its annuity and protection businesses, which do not compete with banking products.
- The company has increased the channel managers to 4,200 from 3,000; growth in APE and agency force is yet to be delivered. Management highlighted that agency managers take 12-24 months to scale up.
- The group term business has faced pricing pressure and is expected to stabilise over the next few quarters.

Our Call

Valuation – We maintain our Buy rating on the stock with an unchanged PT of Rs. 650: IPRU trades at 1.8x/1.6x its FY2024E/FY2025E EVPS. The strategy of approaching customers with a wider product bouquet through all channels will gradually support growth in the medium term. The company continues to add and invest in new partnerships, offering a diversified product and channel offering. Lower drag from the ICICI Bank channel and push in lower-ticket value, non-linked business is expected to drive business volumes gradually over the medium term.

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	FY23E	FY24E	FY25E
APE	7,733	8,640	8,900	9,900
VNB	2,163	2,765	2,550	3,000
VNB Margin (%)	28.0	32.0	28.7	30.3
EV	31,625	35,634	41,000	47,500
PAT	754	811	994	1,140
EPS (Rs.)	5.3	5.6	6.9	7.9
ROEV (%)	8.7	12.7	15.5	16.0
P/EV (x)	2.4	2.1	1.8	1.6
P/VNB (x)	34.4	27.3	29.6	25.2

Source: Company, Sharekhan Research

Key result highlights

- **Product mix:** Individual protection growth has shown robust growth (84% y-o-y in Q2FY2024). Annuity/group protection/non-linked products' APE declined by 7%/15%/8% y-o-y. ULIPs (13% y-o-y) are witnessing a resurgence in demand, led by new product launches. APE growth is expected to pick up as the relevance of the parent bank is incrementally getting lower. The share of protection in the APE mix declined to ~19% in Q2FY2024 vs. 24% in Q1FY2024. The share of non-linked savings declined to ~26% in Q2FY2024 vs. 28% in Q1FY2024, while the share of ULIPs inched higher to 45% in Q2FY2024 vs. 39% in Q1FY2024. The company looks to optimise its channel and product mix with a focus on improving persistency and lower dependence on ICICI Bank, which should help going ahead.
- **Improvement in persistency ratio:** IPRU reported improvement in persistency in all buckets. Persistency was up 40-380 bps y-o-y across buckets. The rise in persistency is an important lever for margin expansion/higher operating variance for the company.
- **Distribution mix:** ICICI Bank continues to go slow in insurance distribution. Overall contribution has declined to 14% in Q2FY2024 from the peak of 56% in FY2019. Growth at other banca partners such as AU SFB, IDFC Bank, IndusInd Bank, and RBL was higher at 13% y-o-y in Q2FY2024. Management has highlighted that growth was primarily driven by higher counter share at new banca channels. Individual contribution of these new channels is still low at <5% of APE. Agency and direct channels grew by 4% and 19%, respectively. It has also increased channel managers to 4,200 from 3,000, growth in APE and agency force is yet to be delivered. Management highlighted that agency managers take 12-24 months to scale up and will deliver results over time.

Results Rs cr

Particulars	Q2FY24	Q2FY23	Q1FY24	y-o-y	q-o-q
New Business Premium	4,534	4,253	3,217	7%	41%
Net Premium	10,022	9,582	7,020	5%	43%
Income from investments	6,939	12,819	16,031	-46%	-57%
Other income	52	38	45	36%	16%
Net Commission	771	413	383	87%	101%
Operating Expenses	1,152	1,054	1,111	9%	4%
Benefits Paid	9,464	8,022	7,946	18%	19%
Surplus/(Deficit)	301	523	201	-42%	50%
PBT	248	200	207	24%	19%
PAT	244	200	206	22%	18%

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Large opportunity but regulatory risk higher

Insurance penetration is still very low 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 the 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

A 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 optimise 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 an unchanged PT of Rs. 650

IPRU trades at 1.8x/1.6x its FY2024E/FY2025E EVPS. The strategy of approaching customers with a wider product bouquet through all channels will gradually support growth in the medium term. The company continues to add and invest in new partnerships, offering a diversified product and channel offering. Lower drag from the ICICI Bank channel and push in lower-ticket value, non-linked business is expected to drive business volumes gradually over the medium term.

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	521	75,077	29.6	25.2	1.8	1.6	15.5	16.0
HDFC Life Insurance Company	639	1,37,282	33.9	28.6	2.9	2.4	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

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 optimise its channel and product matrix with a focus on improving persistency and lower dependence on ICICI Bank, which is a key positive.

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

Anup Bagchi	Managing Director and Chief Executive Officer
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
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

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