

RESEARCH
ICICI PRUDENTIAL LIFE | TARGET: Rs 518 | -10% | SELL

Some hits, some misses; maintain SELL

SUMMARY
ICICI PRUDENTIAL LIFE

- APE down 4% YoY to Rs 14.6bn in Q1 but up 4% ex-ICICIBC despite a soft demand environment
- VNB margin down 100bps YoY but remains healthy at 30%; cost ratios climbed further on manpower and advertising spends
- Maintain SELL with a new TP of Rs 518 (vs. Rs 494) on a higher target FY25E P/EV of 1.6x (vs. 1.5x) given a resilient performance ex-parent

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Daily macro indicators

Ticker	14-Jul	17-Jul	Chg (%)
US 10Y yield (%)	3.83	3.81	(3bps)
India 10Y yield (%)	7.09	7.08	(2bps)
USD/INR	82.17	82.05	0.1
Brent Crude (US\$/bbl)	79.9	78.5	(1.7)
Dow	34,509	34,585	0.2
Hang Seng	19,351	19,414	0.3
Sensex	66,061	66,590	0.8
India FII (US\$ mn)	13-Jul	14-Jul	Chg (\$ mn)
FII-D	5.1	5.0	(0.2)
FII-E	688.1	399.4	(288.7)

Source: Bank of Baroda Economics Research



SELL
 TP: Rs 518 | ▼ 10%

ICICI PRUDENTIAL LIFE | Insurance

18 July 2023

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APE declines in Q1; June an exception: IPRU's APE declined 4% YoY to Rs 14.6bn in Q1FY24, but grew 4% YoY ex-ICICI Bank (ICICIBC). In June, APE grew 11% YoY and was up 17% ex-parent. Management indicated that 87% of business comes from channels other than ICICIBC. Protection APE increased 4.2% YoY in Q1 and constituted 23.5% of the total while savings APE declined 6% to Rs 11.2bn. Within these, linked plans (39% of total APE) fell 8% YoY whereas non-linked plans (28%) declined 4%. We raise our APE estimates by 1-2% each for FY24/FY25 considering high growth in June and adjusting for a poor April affected by the change in tax policy.

Cost ratios high; market share declines: The total cost ratio increased ~240bps YoY in Q1 due to an increase in manpower costs coupled with higher advertising expense, although the company says this does not reflect an annual trend. Nevertheless, we raise our total expense ratio assumptions by ~100bps each for FY24/FY25. Separately, IPRU's NBP market share loss continued in Q1FY24 – the company retained just 10.8% share vs. 12.5% in Q1FY23 and 12.2% in FY23, though June showed a slight improvement to 11%.

VNB margin falls but still healthy: IPRU's VNB margin declined 100bps YoY to 30% (as expected) due to a decline in group term and non-par business, partially offset by strong growth in retail protection products. VNB decreased 7% YoY to Rs 4.4bn. We raise our VNB margin estimates by 50bps each for FY24/FY25 to 29% and increase VNB estimates by 3%/4%. Persistency improved across cohorts with the 13th month ratio rising from 85.5% at end-2MFY23 to 86.4% at end-2MFY24 and the 61st month cohort rising from 55.7% to 66.5% respectively.

Maintain SELL: The stock is trading at 1.8x FY25E P/EV. However, given a resilient VNB margin and strong retail protection APE growth in Q1 along with solid overall growth in June, we raise our target FY25E P/EV multiple to 1.6x from 1.5x, a 30% discount to the long-term mean. Coupled with estimate changes, this yields a higher TP of Rs 518 (vs. Rs 494). We maintain SELL as the company is yet to remedy key negatives such as market share loss, high cost ratios and weak business from ICICIBC.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	IPRU IN/Rs 575
Market cap	US\$ 10.1bn
Free float	5%
3M ADV	US\$ 13.5mn
52wk high/low	Rs 616/Rs 381
Promoter/FPI/DII	73%/17%/5%

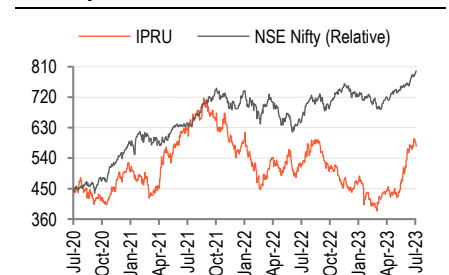
Source: NSE | Price as of 18 Jul 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
NBP (Rs mn)	1,74,125	1,92,472	2,10,674
APE (Rs mn)	86,400	80,136	87,470
VNB (Rs mn)	27,648	23,239	25,366
Embedded Value (Rs mn)	3,56,338	4,08,645	4,67,263
VNB margin (%)	32.0	29.0	29.0
EVPS (Rs)	248.0	284.3	325.1
EPS (Rs)	5.6	7.3	7.7
Consensus EPS (Rs)	5.6	8.0	8.6
P/EV (x)	2.3	2.0	1.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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