

RESEARCH

ICICI PRUDENTIAL LIFE | TARGET: Rs 494 | +8% | HOLD

FY23 ends on a high note; cut to HOLD post rally

BOB ECONOMICS RESEARCH | RATE DIFFERENTIAL

Update on India and US rates

SUMMARY

ICICI PRUDENTIAL LIFE

- Strong Q4 growth lifts overall FY23 numbers; sustainability of growth and ability to arrest NBP market share loss key monitorables
- Absolute VNB has doubled in 4Y as targeted; VNB margin also high at 32% in FY23
- Recent stock rally caps upside potential; downgrade to HOLD with a revised TP of Rs 494 (vs. Rs 487)

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INDIA ECONOMICS: RATE DIFFERENTIAL

India and US 10Y yield differential is seen inching up since March'23. This is on account of faster pace of decline in US 10Y yield compared to India's 10Y yield, which is less elastic. Several factors have been at play.

[Click here for the full report.](#)

Daily macro indicators

Ticker	19-Apr	20-Apr	Chg (%)
US 10Y yield (%)	3.59	3.53	(6bps)
India 10Y yield (%)	7.20	7.20	0bps
USD/INR	82.23	82.16	0.1
Brent Crude (US\$/bbl)	83.1	81.1	(2.4)
Dow	33,897	33,787	(0.3)
Hang Seng	20,368	20,397	0.1
Sensex	59,568	59,632	0.1
India FII (US\$ mn)	18-Apr	19-Apr	Chg (\$ mn)
FII-D	62.9	(1.7)	(64.6)
FII-E	(67.3)	20.6	87.9

Source: Bank of Baroda Economics Research



HOLD
 TP: Rs 494 | ▲ 8%

ICICI PRUDENTIAL LIFE | Insurance

21 April 2023

FY23 ends on a high note; cut to HOLD post rally

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VNB growth strong; margins high: IPRU's VNB grew 28% YoY to Rs 27.6bn for full year FY23, achieving the company's goal of doubling business over FY19-FY23. VNB margin for the year has risen to 32% from 28% in FY22 given a focus on higher margin products. We raise our VNB margin estimates by 60-80bps for FY24/FY25 to 28.5% each and increase VNB estimates by 11%/12%. Persistency improved across cohorts with the 13th month ratio rising from 85.7% at end-11MFY22 to 86.6% at end-11MFY23 and the 61st cohort rising from 54.4% to 65.7% respectively.

High APE growth: APE rose 27%/12% YoY to Rs 33bn/Rs 86.4bn in Q4FY23/ FY23. Protection APE grew 14.5% YoY for the year to Rs 15bn and constituted 17% of the total while savings APE grew 11% to Rs 71.4bn. Within these, linked plans (36% of total APE) declined 17% YoY whereas non-linked plans (37%) grew 52%. Annuity soared 69% YoY on a smaller base to Rs 5bn. We raise our APE estimates by 9% each for FY24/FY25 but will be closely monitoring performance in coming quarters for sustainability given that most of the growth in FY23 has come in Q4 – potentially due to investment in big-ticket policies to avail of taxation benefits (withdrawn post FY23).

Expenses move up; market share declines: Business growth led to the commission and opex ratios climbing 100bps YoY each in Q4. Per management, these remain within the EOM (Expenses of Management) limit prescribed by IRDA. We raise our total expense ratio assumptions by 50bps each for FY24/FY25. Separately, IPRU's NBP market share loss was arrested in Q4FY23 (12.4% vs. 11.1% in Q3), but shows a decline on a full-year basis to 12.2% in FY23 from 13% in FY22.

Rally caps upside; downgrade to HOLD: The stock currently trades at 1.4x FY25E P/EV. Factoring in the positives of high persistency and strong VNB growth alongside negatives of higher expense ratios, market share loss and regulatory headwinds, we continue to value the stock 2SD below its long-term mean at 1.5x FY25E P/EV. We tweak estimates to bake in the Q4 results, yielding a slightly higher TP of Rs 494 (vs. Rs 487), but cut our rating from BUY to HOLD on limited upside post the 13% run-up in the stock since 1 February.

Key changes

Target	Rating
▲	▼

Ticker/Price	IPRU IN/Rs 456
Market cap	US\$ 8.0bn
Free float	5%
3M ADV	US\$ 10.9mn
52wk high/low	Rs 609/Rs 381
Promoter/FPI/DII	73%/17%/5%

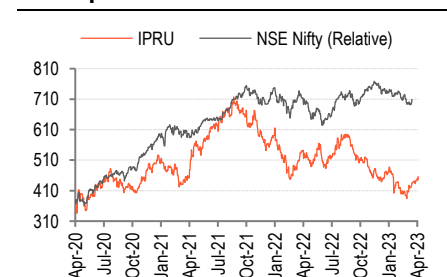
Source: NSE | Price as of 20 Apr 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
NBP (Rs mn)	1,74,125	1,91,538	2,06,861
APE (Rs mn)	86,400	90,112	98,796
VNB (Rs mn)	27,648	25,682	28,157
Embedded Value (Rs mn)	3,56,338	4,11,087	4,72,691
VNB margin (%)	32.0	28.5	28.5
EVPS (Rs)	248.0	286.1	329.1
EPS (Rs)	5.6	6.8	8.5
Consensus EPS (Rs)	5.6	8.7	9.3
P/EV (x)	1.8	1.6	1.4

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



RATE DIFFERENTIAL

21 April 2023

Update on India and US rates

India and US 10Y yield differential is seen inching up since March'23. This is on account of faster pace of decline in US 10Y yield compared to India's 10Y yield, which is less elastic. Several factors have been at play.

Dipanwita Mazumdar
Economist

- There has been synchronized drop in US CPI since Jan'23 both on sequential and YoY basis. The PCE and core PCE index (closely tracked by Fed for inflation) have showed continuous moderation. Producer prices have fallen on sequential and YoY basis.
- The average hourly earnings have also fallen on a sequential basis, non-farm payroll numbers have also fallen since Jan'23, signaling some degree of slowdown in the economy.
- Slowdown in industrial production (both sequential and YoY), ISM manufacturing index also indicates that US economy is losing some steam.
- Fed's Beige Book also highlighted that signs of stress are visible in manufacturing activity and lending volumes.
- Market is pricing in a 25bps in the next policy and thereby a pause either from May/Jun onwards. Further slowing of the economy may even call for an easing policy space towards next year.

Table 1: India and US 10Y yield differential have inched up

Average for	US 10Y yield	India 10Y yield	Yield Differential, bps
Jan-23	3.54	7.33	379
Feb-23	3.75	7.35	361
Mar-23	3.66	7.36	369
Apr-23	3.45	7.22	377

Source: Bloomberg, bank of Baroda Research Average for the month taken for computation of yield

- The policy rate differential between India and US has fallen on the other hand. This is because of faster pace of increase in policy rate of US (+50bps increase in the past three months) compared to India (+25bps increase in the past three months).

Table 2: India and US 10Y policy differential have fallen

	US Fed fund rate (mid-point)	India's repo rate	Policy rate Differential, bps
Jan-23	4.375	6.25	188
Feb-23	4.625	6.50	188
Mar-23	4.712	6.50	179
Apr-23	4.875	6.50	163

Source: Bloomberg, bank of Baroda Research, Average for the month taken for computation of policy rate



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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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