

RESEARCH

ICICI PRUDENTIAL LIFE | TARGET: Rs 556 | +8% | HOLD

Subdued growth

FEDERAL BANK | TARGET: Rs 189 | +29% | BUY

Higher other income supports PAT growth

SUMMARY

ICICI PRUDENTIAL LIFE

- 9MFY24 VNB margin contracted 500bps YoY to 26.7% owing to a change in product mix and cost pressures
- APE grew just 2% YoY in 9M (+5% YoY in Q3) as non-linked and group products declined
- Maintain HOLD with a revised TP of Rs 556 (vs. Rs 604) on a lower target FY26E P/EV of 1.5x (vs. 1.6x)

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

FEDERAL BANK

- Business growth healthy in Q3 despite deposit mobilisation challenges; PAT grew 25% YoY on higher other income
- NIM came in at 3.2% (-3bps QoQ), in line with guidance for FY24; credit cost normalised at 31bps from 13bps in Q2
- We raise FY24/FY25 PAT estimates 3%/8% for a new TP of Rs 189 (vs. Rs 180), set at 1.3x FY26E ABV (vs. 1.4x on FY25E); retain BUY

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

Daily macro indicators

Indicator	16-Jan	17-Jan	Chg (%)
US 10Y yield (%)	4.06	4.10	4bps
India 10Y yield (%)	7.15	7.17	2bps
USD/INR	83.08	83.14	(0.1)
Brent Crude (US\$/bbl)	78.3	77.9	(0.5)
Dow	37,361	37,267	(0.3)
Hang Seng	15,866	15,277	(3.7)
Sensex	73,129	71,501	(2.2)
India FII (US\$ mn)	15-Jan	16-Jan	Chg (\$ mn)
FII-D	77.7	285.1	207.4
FII-E	243.2	142.4	(100.8)

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



HOLD
 TP: Rs 556 | ▲ 8%

ICICI PRUDENTIAL LIFE | Insurance

18 January 2024

Subdued growth

- 9MFY24 VNB margin contracted 500bps YoY to 26.7% owing to a change in product mix and cost pressures
- APE grew just 2% YoY in 9M (+5% YoY in Q3) as non-linked and group products declined
- Maintain HOLD with a revised TP of Rs 556 (vs. Rs 604) on a lower target FY26E P/EV of 1.5x (vs. 1.6x)

Mohit Mangal

research@bobcaps.in

VNB margin decline a negative surprise: IPRU’s VNB margin contracted 500bps QoQ to 23% at end-Q3FY24 (-500bps YoY in 9MFY24 to 26.7%) due to a change in product mix towards lower yielding products (ULIP and par) and cost pressures. Protection share in APE was flat at 19% in Q3FY24, with growth in retail protection being offset by a decline in group term business. Baking in the results, we lower our FY24-FY26 forecasts for VNB margin by 200-300bps and absolute VNB by 8-12%.

APE growth muted: IPRU’s APE grew 5% YoY to Rs 19.1bn at end-Q3FY24 (2% YoY to Rs 54.3bn in 9MFY24). Linked APE grew 9% YoY to Rs 8.5bn whereas non-linked APE declined 1% to Rs 5.2bn. NBP increased 4% YoY to Rs 42.1bn but was below our estimate of Rs 45bn, whereas gross premium grew 5% YoY to Rs 103bn vs. Rs 107bn expected. We lower APE estimates by 2-3% for FY24-FY26.

Bancassurance lags: APE from bancassurance climbed a paltry 2% YoY at the end of Q3 to Rs 5.1bn, but management is optimistic that ICICI Bank’s monthly business run-rate of Rs 0.8bn-1bn would be sustained. Both agency and direct channels posted double-digit growth in Q3.

Higher commissions push up cost ratios: Total commissions swelled 156% YoY, leading to a 31% rise in total expenses for the quarter. This translated to higher cost ratios of 18.3% in Q3 (14.7% in Q3FY23) and 18.9% in 9MFY24 (15.3% in 9MFY23).

Persistency ratio improves: Persistency improved across cohorts with the 13th-month ratio rising from 86.1% at end-8MFY23 to 87.4% at end-8MFY24 and the 61st-month cohort moving up from 64.2% to 64.9% respectively.

Maintain HOLD: Based on our revised estimates, we move to a new TP of Rs 556 (vs. Rs 604), set at an implied FY26E P/EV multiple of 1.5x (vs. 1.6x earlier), a 35% discount to the long-term mean. We remain cautious on IPRU due to the company’s prolonged market share bleed, weak APE growth and slow business from the parent. The stock carries 8% upside and hence we maintain HOLD.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	IPRU IN/Rs 515
Market cap	US\$ 9.0bn
Free float	27%
3M ADV	US\$ 12.1mn
52wk high/low	Rs 616/Rs 381
Promoter/FPI/DII	73%/17%/5%

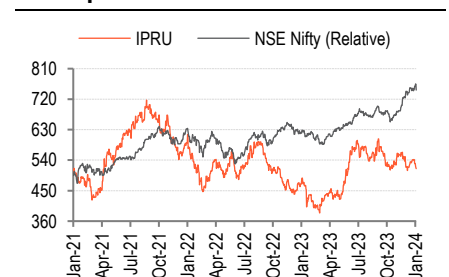
Source: NSE | Price as of 17 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
NBP (Rs mn)	1,74,125	1,68,646	1,86,302
APE (Rs mn)	86,400	84,693	93,319
VNB (Rs mn)	27,648	22,444	25,196
Embedded Value (Rs mn)	3,56,338	4,08,849	4,67,313
VNB margin (%)	32.0	26.5	27.0
EVPS (Rs)	248.0	284.4	325.1
EPS (Rs)	5.6	7.5	9.0
Consensus EPS (Rs)	5.6	7.5	8.6
P/EV (x)	2.1	1.8	1.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



BUY
 TP: Rs 189 | ▲ 29%

FEDERAL BANK

| Banking

| 18 January 2024

Higher other income supports PAT growth

- **Business growth healthy in Q3 despite deposit mobilisation challenges; PAT grew 25% YoY on higher other income**
- **NIM came in at 3.2% (-3bps QoQ), in line with guidance for FY24; credit cost normalised at 31bps from 13bps in Q2**
- **We raise FY24/FY25 PAT estimates 3%/8% for a new TP of Rs 189 (vs. Rs 180), set at 1.3x FY26E ABV (vs. 1.4x on FY25E); retain BUY**

Ajit Agrawal

research@bobcaps.in

Strong business growth: FB's business growth held strong in Q3FY24, with deposits outpacing credit growth at 19% YoY (+2.9% QoQ) mainly led by term deposits which grew 26% YoY (compared to CASA growth of 6.4% YoY). Correspondingly, the CASA ratio fell 54bps QoQ to 30.6%. Loan growth was backed by a healthy rise in retail (+5% QoQ) and agri (+6%) business, even as microfinance witnessed strong growth of 12% off a low base. Management maintained its business growth guidance of 18-20% for FY24 with a target LDR of 80%.

NII muted; NIM dips QoQ: Higher interest expenses led to muted NII growth of 8.5% YoY (+3.3% QoQ), whereas other income increased 61% YoY (+18% QoQ) due to the stake sale in NBFC arm Fedfina. Cost of deposits moved up 21bps QoQ, in line with guidance, leading to a 3bps dip in reported NIM to 3.19%. Management maintained NIM guidance at 3.25% for FY24. Increased operational cost driven by higher branch addition and additional provisions towards wage revision slowed PPOP growth to 13% YoY, while PAT was up 25% YoY to Rs 10bn. Management guidance of additional costs towards the pension bill is likely to keep the C/I ratio elevated in Q4 as well.

Slippages up QoQ but asset quality stable: Slippages rose to Rs 4.9bn from Rs 3.7bn in Q2 as a single corporate account slipped into NPA. Management is confident of upgrading the same in Q4. GNPA/NNPA were stable at 2.3%/0.6% with 72.3% PCR. Credit cost normalised to 19bps from 9bps in Q2 and management retained guidance of 40bps for FY24. Considering stable asset quality and low credit cost, we cut our FY24/FY25 provision estimates by 44%/26% and raise PAT forecasts by 3%/8%.

Maintain BUY: FB's conservative approach towards asset quality versus asset pricing along with risk-adjusted growth over the past year is paying off. At current valuations of 1x FY26E P/ABV, the bank is one of the cheapest stocks among large-cap peers due to its relatively low return ratios. We expect strong growth with stable margins and a focus on risk-adjusted returns to raise ROE/ROA to 14%/1.2% by FY26, gradually narrowing the gap with peers. Alongside estimate revision, we now value the stock at 1.3x FY26E ABV (vs. 1.4x on FY25E earlier) based on the Gordon Growth Model, translating to a revised TP of Rs 189 (vs. Rs 180). BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	FB IN/Rs 147
Market cap	US\$ 4.4bn
Free float	100%
3M ADV	US\$ 22.7mn
52wk high/low	Rs 159/Rs 121
Promoter/FPI/DII	0%/29%/44%

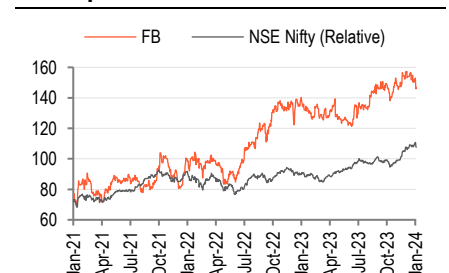
Source: NSE | Price as of 18 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	72,322	82,630	98,379
NII growth (%)	21.3	14.3	19.1
Adj. net profit (Rs mn)	29,086	37,595	41,688
EPS (Rs)	13.8	16.5	17.1
Consensus EPS (Rs)	13.8	15.7	17.4
P/E (x)	10.6	8.9	8.6
P/BV (x)	1.4	1.3	1.1
ROA (%)	1.2	1.3	1.3
ROE (%)	14.4	15.1	13.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA (“US”) OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**

Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**

Logo:  **BOBCAPS**
 TRUST | INNOVATION | EXCELLENCE

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

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.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an "as is" basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the "Losses") which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom ("UK"):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd ("MSL") who is authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom (MSL and its affiliates are collectively referred to as "MAYBANK"). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the "Order"), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as "relevant persons").

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.