

RESEARCH

BOB ECONOMICS RESEARCH | POLICY RATES

Global central banks actions in retrospect

ICICI PRUDENTIAL LIFE | TARGET: Rs 595 | +8% | HOLD

Green shoots of growth

Daily macro indicators

| Indicator | 18-Mar | 19-Mar | Chg (%) |
|------------------------|--------|---------|-------------|
| US 10Y yield (%) | 4.32 | 4.29 | (3bps) |
| India 10Y yield (%) | 7.09 | 7.10 | 1bps |
| USD/INR | 82.91 | 83.04 | (0.2) |
| Brent Crude (US\$/bbl) | 86.9 | 87.4 | 0.6 |
| Dow | 38,790 | 39,111 | 0.8 |
| Hang Seng | 16,737 | 16,529 | (1.2) |
| Sensex | 72,748 | 72,012 | (1.0) |
| India FII (US\$ mn) | 15-Mar | 18-Mar | Chg (\$ mn) |
| FII-D | 115.3 | (94.2) | (209.6) |
| FII-E | 93.3 | (140.7) | (234.0) |

Source: Bank of Baroda Economics Research

SUMMARY

INDIA ECONOMICS: POLICY RATES

Ever since the Covid-19 pandemic, the role of monetary policy has gained prominence in both political as well as social debates across the world. In recent times, there have been arguments over the impact of global monetary policy decisions, especially the Fed, on domestic monetary policy. However, the RBI has always maintained that its monetary policy decisions are governed by domestic price and financial stability considerations and not influenced by what other global central banks are doing. In the last few years, global monetary policy underwent a significant set of challenges in the form of Covid-19 and low inflation, and then a complete reversal of the inflation trajectory. This called for a proactive and often synchronized policy response of monetary policy.

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ICICI PRUDENTIAL LIFE

- Individual APE market share grew to 10%/12.4% in Jan/Feb'24 from 8.7% in 9MFY24 – a positive surprise
- Retail protection growth rebounded in 9MFY24, but a product mix tilt toward ULIPs suppressed VNB margin
- Maintain HOLD with a new TP of Rs 595 (vs. Rs 556) on a higher target FY26E P/EV of 1.6x (vs. 1.5x); consistency in growth key to watch

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POLICY RATES

20 March 2024

Global central banks actions in retrospect

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Aditi Gupta
Economist

With this background, in this study we are tracing the movement in global monetary policy decisions in the last few years. It must be mentioned here that most countries faced a similar set of challenges during each of these periods, marked by aggressive policy easing during the peak of pandemic followed by aggressive policy tightening as inflation accelerated and then a period of a pause in policy rates. This information has been summarized in Table 1. It must be mentioned here that Bank of Japan remained an outlier all throughout each of these phases, standing pat on its ultra-dovish policy stance. However, with inflation in the region creeping up considerably in the last few months, the central bank recently raised its policy rates for the first time in last 17-years. China too remained an outlier as its economy continued to struggle post the Covid-19 pandemic and the property sector crisis. As a result, People's Bank of China (PBOC) has been cutting rates to support domestic growth.

Phase 1: Covid-19 pandemic

When the Covid-19 pandemic broke out, economic activity practically came to a standstill, curtailing growth severely. Global central banks responded by cutting policy rates aggressively, to spur growth and investment. This was a period of synchronized monetary policy easing across the globe, one which the world had not seen since the global financial crisis.

By Mar'20-Apr'20, most major global central banks had already cut their respective policy rates to multi-year lows. The US was the first major central bank to cut rates, to a low of 0.25% in Mar'20. Even in the UK, the Bank of England slashed its policy rate to as low as 0.1% in Mar'20 from 0.75% at the end of 2019. In Europe, the policy rate was already at 0%.



HOLD

TP: Rs 595 | ▲ 8%

ICICI PRUDENTIAL LIFE | Insurance

20 March 2024

Green shoots of growth

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Mohit Mangal

research@bobcaps.in

Market share gains in Jan-Feb a surprise: IPRU has consistently ceded market share, losing 700bps in individual APE terms between FY20 and 9MFY24 to 8.7%, with mediocre growth over this period. We were, thus, pleasantly surprised by its market share gains to 10% in Jan'24 and 12.4% in Feb'24. Management indicated that APE rose 6% YoY in 11MFY24 and is guiding for double-digit growth (annualised) in Q4FY24 despite the high base of last year when customers brought forward insurance purchases in light of revised tax norms. Baking in the 11-month data, we raise our FY24 APE estimate by 1.5% to Rs 86bn but keep our FY25/FY26 numbers largely intact at Rs 93bn/Rs 102bn.

Retail protection growth rebounds, VNB margin drops in 9MFY24: After a 7% CAGR decline in retail protection APE over FY19-FY23 (vs. +8% for HDFC Life and +28% for SBI Life), IPRU clocked 55% YoY growth in 9MFY24, albeit on a low base. Owing to a shift in product mix towards ULIPs and higher expense ratios, the company's 9MFY24 VNB margin contracted materially to 26.7% from 32% in the year-ago period. That said, margins declined for other private players as well, but at a slower pace.

Bancassurance channel remains weak: ICICI Bank's (ICICIBC) strategy of marketing selective insurance products hindered IPRU's growth, with the parent originating just 14% of APE at end-9MFY24 from 51% at end-FY19. This also induced a halving of overall APE share from the bancassurance distribution channel to 28% from 55% over the period. In contrast, we note that major listed peers derive most of their business from banking partners – a differentiating growth factor.

Maintain HOLD: The stock is currently trading at 1.5x FY26E P/EV. Accounting for positive signals on the market share and retail protection fronts, we raise our target FY26E P/EV multiple to 1.6x from 1.5x, reflecting a 30% discount to the stock's long-term mean from 35% previously. Our TP thus rises to Rs 595 (vs. Rs 556) while our rating remains at HOLD considering the middling 8% upside potential. Demonstration of consistent growth would be key to a rerating for IPRU, in our view.

Key changes

| Target | Rating |
|--------|--------|
| ▲ | ◀ ▶ |

| | |
|------------------|----------------|
| Ticker/Price | IPRU IN/Rs 550 |
| Market cap | US\$ 9.6bn |
| Free float | 27% |
| 3M ADV | US\$ 15.9mn |
| 52wk high/low | Rs 616/Rs 391 |
| Promoter/FPI/DII | 73%/15%/7% |

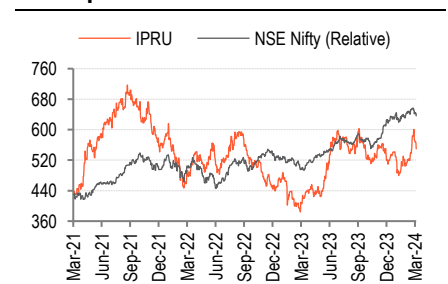
Source: NSE | Price as of 19 Mar 2024

Key financials

| Y/E 31 Mar | FY23A | FY24E | FY25E |
|------------------------|----------|----------|----------|
| NBP (Rs mn) | 1,74,125 | 1,71,201 | 1,86,546 |
| APE (Rs mn) | 86,400 | 85,976 | 93,441 |
| VNB (Rs mn) | 27,648 | 22,784 | 25,229 |
| Embedded Value (Rs mn) | 3,56,338 | 4,09,189 | 4,67,713 |
| VNB margin (%) | 32.0 | 26.5 | 27.0 |
| EVPS (Rs) | 248.0 | 284.7 | 325.4 |
| EPS (Rs) | 5.6 | 7.7 | 8.9 |
| Consensus EPS (Rs) | 5.6 | 7.5 | 8.6 |
| P/EV (x) | 2.2 | 1.9 | 1.7 |

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



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Note: Recommendation structure changed with effect from 21 June 2021

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