

HOLD

TP: Rs 595 | ▲ 8%

ICICI PRUDENTIAL LIFE | Insurance

20 March 2024

Green shoots of growth

- 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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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%/12%

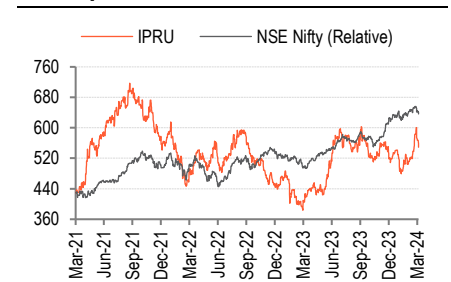
Source: NSE | Price as of 19 Mar 2024

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

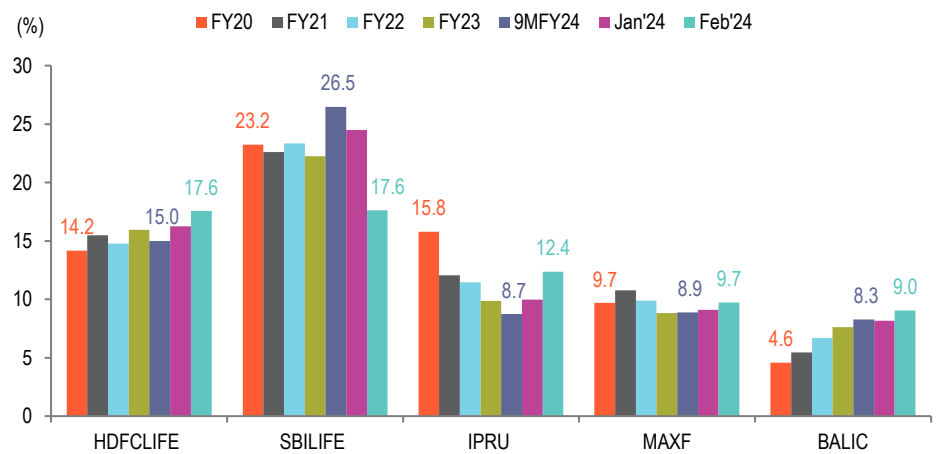


Recouping of market share a positive

IPRU's market share in individual APE had dropped from 15.8% in FY20 to 9.9% in FY23 and 8.7% in 9MFY24 alongside weak growth, reflecting our key concerns about the company. However, in January and February of this year, IPRU managed to reverse this trend with an increase in market share to 10% and 12.4% respectively, as its individual APE grew by 22% and 34% YoY for the two months vs. 20% for the industry, helping solidify its No. 3 position among private life insurers. Per the company, overall APE has risen by 8%/39% YoY in January/February.

The company's Q4FY24 performance remains a key monitorable. Management has guided for double-digit APE growth on an annualised basis for the quarter despite a higher base of last year when customers brought forward their insurance purchases amid revised taxation norms. IPRU expects growth to come from a combination of products and distribution channels in which it has invested over the last 18 months.

Fig 1 – IPRU's market share has rebounded in Jan-Feb'24



Source: IRDA, BOBCAPS Research

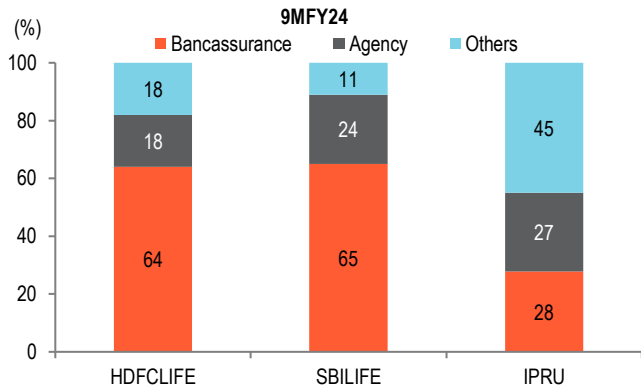
Though the FY24 YTD (April-February) numbers rank IPRU as the No. 3 private player because of a strong showing in January and February, we note that Max Life had nosed ahead by 20bps in 9MFY24. This implies that IPRU must hold on to its current market share, at the very least, to be regarded as a credible third player in the sector.

Concerns over bancassurance channel persist

IPRU's APE grew 5% YoY in Q3FY24 to Rs 19bn and 2% YoY in 9MFY24 to Rs 54bn. While the share of non-ICICIBC banking partners in APE origination has risen from 4% at end-FY19 to 14% in 9MFY24, parent ICICIBC's contribution has plummeted from 51% to 14% over this period. This, in turn, has induced a decline in overall bancassurance channel share from 55% to 28%.

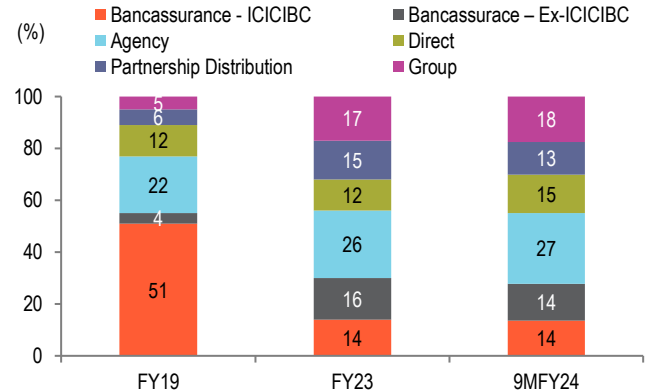
In contrast, we note that major listed peers derive most of their business from banking partners (~65% vs. 28% for IPRU) and are aggressively pursuing tie-ups to further augment their bank-driven channels, posing stiff competition to the company and serving as a differentiating factor for growth.

Fig 2 – Low APE origination from bancassurance channel a key reason for IPRU’s underperformance



Source: Company, BOBCAPS Research | Note: The above data is based on APE except for HDFC Life which is based on individual APE

Fig 3 – Bancassurance share fell owing to ICICI’s selective sales of insurance products

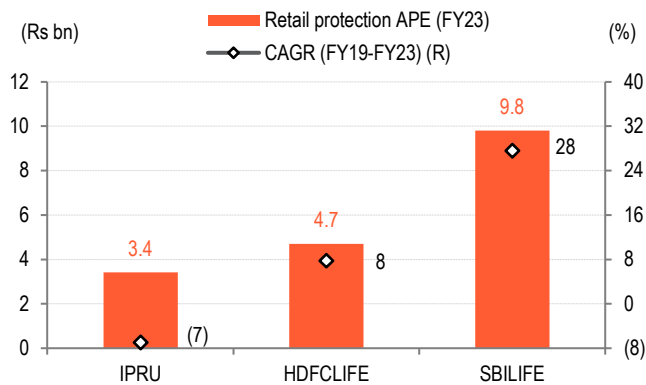


Source: Company, BOBCAPS Research

Retail protection growth rebounded in 9MFY24

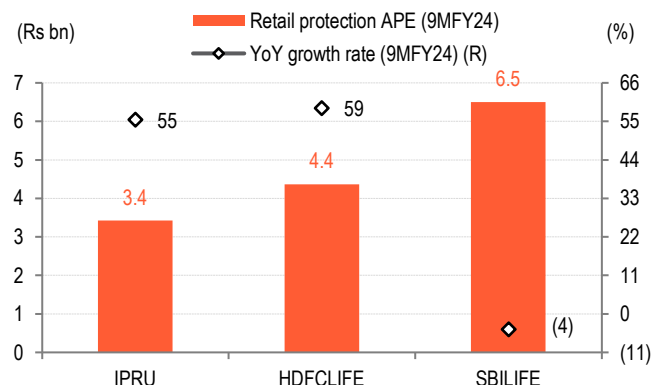
IPRU’s retail (individual) protection APE had declined at a 7% CAGR over FY19-FY23 to Rs 3.4bn as the high demand for protection plans seen in FY20 fizzled out. Consequently, the retail component of the company’s protection APE business dwindled to 22% at end-FY23 as compared to 60% in FY19. Matters improved in 9MFY24 when growth rebounded by 55% YoY, albeit off a soft base. SBI Life, which had the highest four-year CAGR in retail protection APE among our universe of private life insurers, saw a marginal decline in 9MFY24 but was up against a high base.

Fig 4 – Retail protection growth the highest for SBI Life over FY19-FY23 whereas IPRU struggled



Source: Company, BOBCAPS Research

Fig 5 – IPRU saw growth rebound in 9MFY24



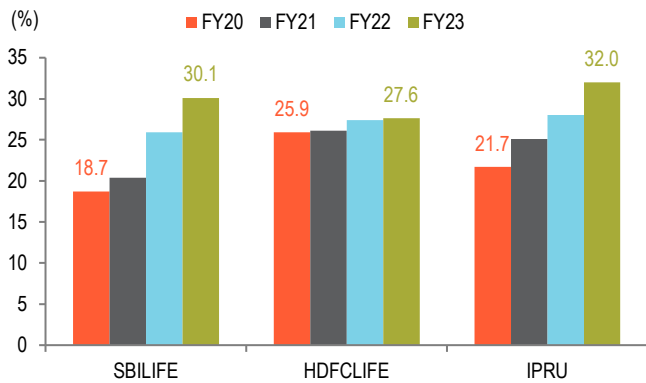
Source: Company, BOBCAPS Research

VNB margin shows a decline

IPRU’s focus on profitable products has enabled it to maintain high VNB margins, at 32% for FY23 vs. 27.6% for HDFC Life and 30.1% for SBI Life. However, the situation reversed in 9MFY24 when margins fell the most for IPRU among private life insurers. SBI Life also saw a decline whereas HDFC Life was able to maintain its margin.

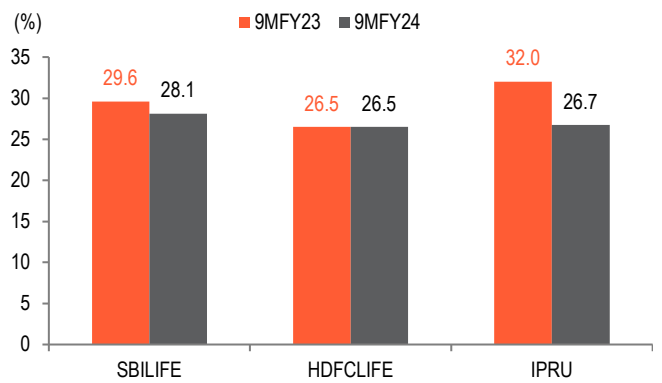
The company’s VNB margin contracted 530bps to 26.7% in 9MFY24 from 32% in the year-ago period because of (i) a change in product mix towards ULIPs and participating products which carry comparatively lower margins, (ii) higher expense ratios primarily due to higher commissions, (iii) competitive pressure on pricing in both the non-par as well as annuity businesses, and (iv) lower deal sizes in group term policies, indicating that premiums have normalised after Covid. In comparison, SBI Life’s VNB margin decreased 150bps to 28.1% in 9MFY24 while HDFC Life was flat at 26.5%.

Fig 6 – VNB margin expanded for all private players over FY20-FY23 with IPRU leading the charge...



Source: Company, BOBCAPS Research

Fig 7 – ...but declined across the board in 9MFY24 – most of all for IPRU



Source: Company, BOBCAPS Research

Valuation methodology

IPRU's dull growth and prolonged market share bleed since FY20 have kept us cautious on the stock. That said, positive signals on market share and retail protection fronts in recent months now lead us to raise our FY24 APE projection by 1.5% to Rs 86bn, though we retain our FY25/FY26 APE estimates and keep VNB margin forecasts unchanged. We also increase our target FY26E P/EV multiple to 1.6x from 1.5x, which represents a 30% discount to the stock's long-term mean from 35% previously.

Based on these revisions, our TP rises to Rs 595 (from Rs 556). Even so, we maintain our HOLD rating as we await more consistent progress on market share and APE growth together with a pickup in business origination from the parent bank.

Fig 8 – Revised estimates

(Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Gross Premium	406	429	460	404	428	459	0.6	0.2	0.2
Net Premium	392	415	444	389	414	443	0.6	0.2	0.2
VNB	23	25	27	22	25	27	1.5	0.1	0.1
APE	86	93	102	85	93	102	1.5	0.1	0.1
Embedded Value (EV)	409	468	533	409	467	533	0.1	0.1	0.1
VNB Margin (%)	26.5	27.0	27.0	26.5	27.0	27.0	0bps	0bps	0bps

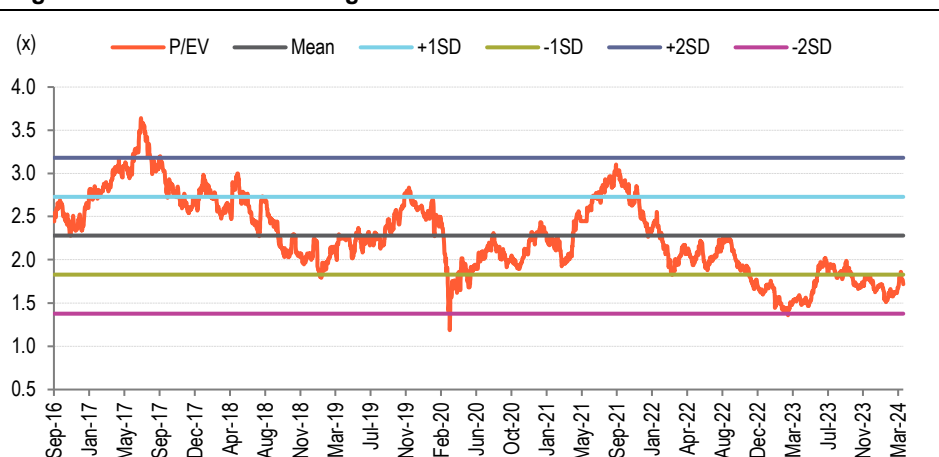
Source: BOBCAPS Research

Fig 9 – Valuation summary

Synopsis of valuation	
Adj. Embedded Value - FY26E (Rs bn)	533
PV of Future business (Rs bn)	324
Total value (Rs bn)	857
Current P/ EV - FY26E (x)	1.5
Implied P/ EV - FY26E (x)	1.6
Implied Target Price (Rs)	592
Implied Target Price (round off) (Rs)	595
Current Price (Rs)	550
Upside (%)	8

Source: BOBCAPS Research

Fig 10 – 1Y fwd P/EV – Trading around -1SD



Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- **Favourable changes in regulatory framework:** Any favourable change in regulations, such as increased 80C income tax deduction limits, can positively impact IPRU's growth.
- **Increase in market share:** Barring recent months, IPRU has been losing market share for several years now. A sustained reversal of this trend will be a key positive.
- **Bancassurance channel growth:** If parent ICICIBC were to alter its marketing strategy to include all types of insurance products or if the contribution from other banks rises substantially, IPRU's business growth could come in ahead of our estimates.
- **Profits from capital and bond markets:** Prolonged strength in capital markets could push up growth in ULIPs. Although insurance companies are aiming for a balanced product mix, many of them still have sizeable business from ULIPs.

Key downside risks to our estimates are:

- **Unfavourable changes in regulatory framework:** Any unfavourable change in regulations can impact business growth. For example, ULIP proceeds are currently taxed to the extent the yearly premium exceeds Rs 0.25mn. Similarly, any change in the income tax rate of insurance companies can adversely affect profitability.
- **Losses from capital and bond markets:** Prolonged weakness in capital markets could hamper the growth of ULIPs. Although insurance companies are aiming for a balanced product mix, many of them have sizeable business coming from ULIPs. For IPRU, the sensitivity of a decline in equity markets on embedded value is comparatively higher as compared to private peers.
- **Adverse economic events:** A significant economic decline may result in financial difficulties or defaults by issuers of bonds in the company's investment portfolios. Shareholders' equity & earnings and policyholders' funds may be affected by fair value revaluation of bonds held in the investment portfolios.
- **High surrender of policies:** Life insurance companies face the risk of surrendered policies. In ULIPs, customers can withdraw policies after five years even if they have been taken for longer durations. Policies can also be surrendered in case of job loss and monetary needs, among other factors, which lowers insurer persistency ratios.

Glossary

Glossary of Abbreviations			
APE	Average Premium Equivalent	IRDA	Insurance Regulatory and Development Authority
EOM	Expenses of Management	NBP	New Business Premium
EV	Embedded Value	ROEV	Return on Embedded Value
EVOP	Embedded Value Operating Profit	ULIP	Unit Linked Insurance Plan
HNI	High Net Worth Individuals	VNB	Value of New Business

Source: BOBCAPS Research

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
HDFC Life	HDFCLIFE IN	16.4	633	850	BUY
ICICI Prudential Life	IPRU IN	9.6	550	595	HOLD
LIC	LICI IN	67.7	880	1,140	HOLD
SBI Life	SBILIFE IN	17.8	1,461	1,970	BUY

Source: BOBCAPS Research, NSE | Price as of 19 Mar 2024

Financials

Revenue Account (Technical)

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Gross premium income	3,74,580	3,99,328	4,06,215	4,29,436	4,60,328
First year premium	59,655	64,938	64,850	70,427	76,750
Renewal premium	2,19,557	2,25,203	2,35,014	2,42,890	2,56,920
Single premium	95,367	1,09,187	1,06,351	1,16,119	1,26,658
Net written premium	3,63,213	3,85,595	3,91,848	4,14,576	4,44,258
Income from investments	2,49,695	99,646	4,60,280	3,29,949	3,46,426
Other Income	22,737	19,540	20,827	22,085	23,444
Total income	6,35,645	5,04,781	8,72,954	7,66,610	8,14,128
Commissions	16,729	18,639	31,235	31,457	33,461
Operating expenses	37,011	46,458	44,485	47,177	50,779
Benefits and bonuses paid	2,93,588	3,10,042	3,44,986	3,50,401	3,73,437
Change in liabilities (net)	2,57,837	98,170	4,19,934	3,02,407	3,14,229
Others	0	0	0	0	0
Total expenses	6,05,166	4,73,309	8,40,640	7,31,441	7,71,906
Surplus before tax	30,479	31,473	32,315	35,169	42,222
Provision for tax	8,576	8,451	10,129	8,369	8,816
Surplus after tax	21,904	23,021	22,186	26,799	33,406
Trf to shareholders' a/c	19,609	20,162	20,145	23,933	30,165
Balance being FFA	2,295	2,860	2,042	2,866	3,241

Income Statement (Non-technical)

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Trf from policyholders' a/c	21,602	20,162	20,145	23,933	30,165
Income from investments	10,114	8,761	13,004	12,073	13,884
Contr. to policyholders' fund	21,611	18,024	18,926	19,872	20,865
Others	(1,002)	(1,009)	(1,010)	(1,031)	(1,052)
PBT	9,103	9,890	13,213	15,103	22,131
Provision for taxation	364	862	1,229	1,418	2,121
PAT	8,739	9,027	11,984	13,685	20,010
Dividend+Interim div.+DDT	793	864	1,440	1,440	1,440

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity	91,631	1,00,918	1,07,726	1,19,050	1,36,700
Policyholders' funds	21,71,190	22,83,724	25,05,743	28,08,149	31,22,378
FFA	13,833	16,693	12,520	13,146	17,089
Others	1,67,748	1,57,138	1,40,761	1,56,585	1,95,090
Total liabilities	24,44,402	25,58,472	27,66,749	30,96,930	34,71,257
Shareholders' funds	98,535	98,514	1,18,217	1,35,949	1,56,342
Policyholders' funds	7,73,880	9,43,110	10,36,577	11,99,002	13,88,259
Assets to cover linked liab.	15,08,663	14,40,581	15,12,610	16,63,871	18,30,258
Others	63,324	76,268	99,346	98,107	96,398
Total assets	24,44,402	25,58,472	27,66,749	30,96,930	34,71,257

Key Metrics

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
AUM (Rs mn)	24,04,920	25,11,910	26,86,309	30,16,868	33,91,643
NBP (Rs mn)	1,55,022	1,74,125	1,71,201	1,86,546	2,03,408
APE (Rs mn)	77,330	86,400	85,976	93,441	1,01,843
VNB (Rs mn)	21,652	27,648	22,784	25,229	27,498
VNB margin (%)	28.0	32.0	26.5	27.0	27.0
Embedded value (Rs mn)	3,16,250	3,56,338	4,09,189	4,67,713	5,33,188
ROEV (%)	11.0	17.4	15.2	14.7	14.3
ROE (%)	8.2	8.4	10.6	11.3	14.9
Opex ratio (%)	9.8	11.5	10.8	10.8	10.9
Cost ratio (%)	14.3	16.1	18.5	18.2	18.2
Solvency ratio (%)	204.5	208.9	201.6	209.2	213.2
EPS (Rs)	5.3	5.6	7.7	8.9	13.3
BVPS (Rs)	63.8	70.2	74.9	82.8	95.1
EVPS (Rs)	220.2	248.0	284.7	325.4	370.9

Source: Company, BOBCAPS Research

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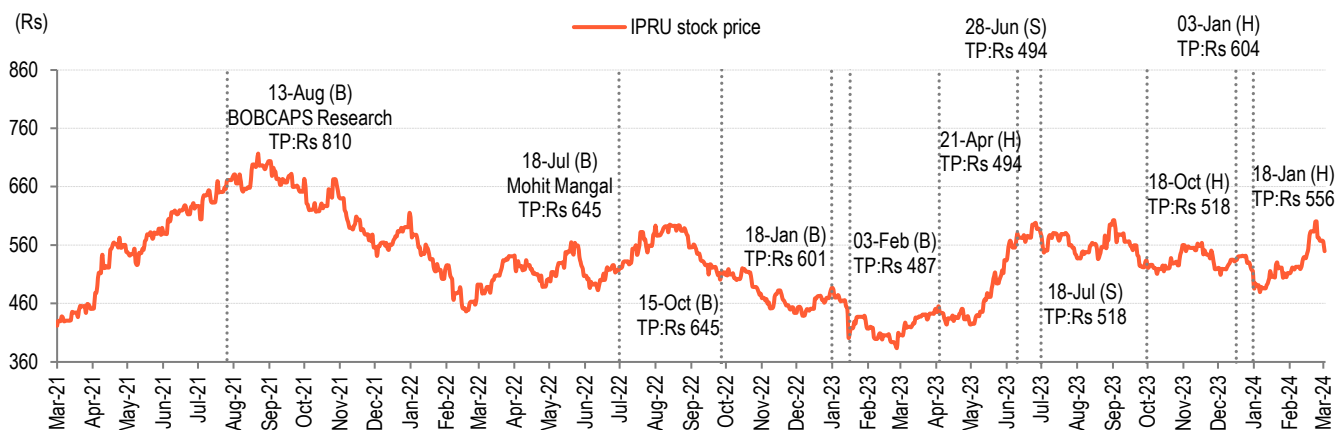
HOLD – Expected return from -6% to +15%

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.

Ratings and Target Price (3-year history): ICICI PRUDENTIAL LIFE (IPRU IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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