

SELL

TP: Rs 494 | ▼ 15%

ICICI PRUDENTIAL LIFE | Insurance

28 June 2023

Stock runup unwarranted; cut to SELL

- NBP and individual APE CAGR the lowest in the listed private space for FY17-FY23; underperformance continued in 2MFY24
- Retail protection APE CAGR at -7% over FY19-FY23 vs. +8% for HDFC Life and +28% for SBI Life
- No major growth levers justify the recent stock rally; cut from HOLD to SELL with an unchanged TP of Rs 494

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Growth concerns: IPRU has had the poorest NBP growth among private listed life insurers over FY17-FY23 with a CAGR of 14% as compared to 22% for HDFC Life and 20% for SBI Life. Similarly, individual APE growth has stagnated whereas the two peers clocked in at 20% and 17% respectively. The downside continued in Apr-May'23 when IPRU's NBP slipped 18% YoY for the 2M period vs. 9% growth for the private sector. Individual APE also shrank by 14% vs. 5% growth for the private space. Consequently, IPRU's NBP market share stands depleted to 10.7% at end-2MFY24 from 15.5% at end-FY17 and individual APE share has plunged from 22.3% to 8.6%.

Bancassurance channel failing to pull its weight: Parent ICICI Bank's (ICICIBC) strategy of targeting protection and annuity revenues while eschewing sales of savings non-linked plans was a key reason for IPRU's lower growth. At its peak the parent contributed 51% of APE at end-FY19, but this proportion has declined to just 14% at end-FY23. In a positive, the share of APE originated by the non-ICICIBC bancassurance channel has quadrupled from 4% to 16%. Even so, we note that major listed peers derive a majority of their business from the bancassurance channel – a differentiating growth factor.

Retail protection business continues to weaken: IPRU's retail protection APE has fallen at a 7% CAGR over FY19-FY23 (vs. +8% for HDFC Life and +28% for SBI Life), and its share in total protection APE has dwindled from 60% to 22%. Although the company registered a strong 20% CAGR in protection APE over FY19-FY23, the group category was behind the growth (including credit life products).

Valuations stretched; downgrade to SELL: The stock is currently trading at 1.8x FY25E P/EV, having run up 25% in June thus far. We see no major growth levers to justify the rally and continue to value the stock at 1.5x FY25E P/EV, 2SD below the long-term mean multiple, for an unchanged TP of Rs 494. Our valuation incorporates the negatives of sustained market share bleed, weak retail protection APE growth and regulatory headwinds but positives of high VNB margin and sound persistency ratios. Given the 15% downside potential from the current price, we downgrade the stock from HOLD to SELL.

Key changes

Target	Rating
◀▶	▼

Ticker/Price	IPRU IN/Rs 580
Market cap	US\$ 10.1bn
Free float	5%
3M ADV	US\$ 12.1mn
52wk high/low	Rs 609/Rs 381
Promoter/FPI/DII	73%/17%/5%

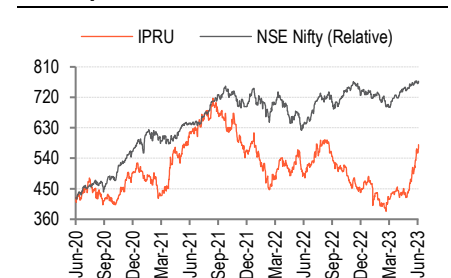
Source: NSE | Price as of 27 Jun 2023

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	8.0	8.6
P/EV (x)	2.3	2.0	1.8

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

Stock performance



Source: NSE

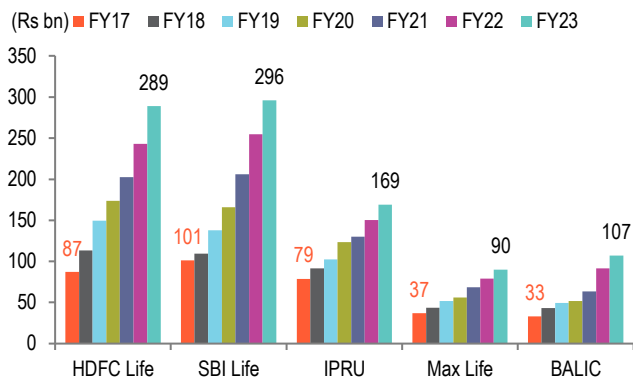


Market share loss and poor growth key concerns

IPRU’s growth in NBP and individual APE has underperformed listed private peers over FY17-FY23, with the trend continuing in Apr-May’23. This is reflected in a worrying deterioration in market share.

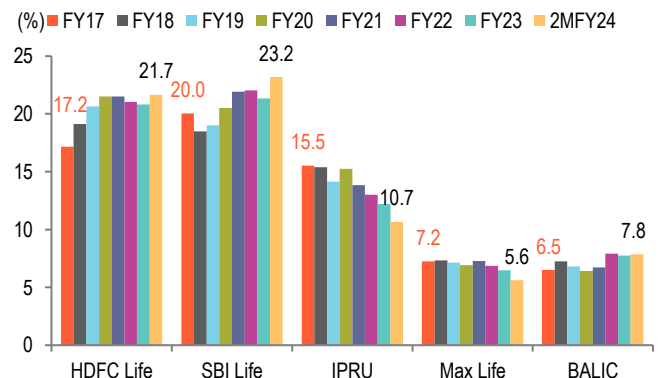
- The company’s NBP market share among private listed players has fallen close to 500bps from 15.5% at end-FY17 to 12.2% at end-FY23 and further to 10.7% at end-2MFY24. Although IPRU has clung to its third rank in the private space, HDFC Life (#2) and SBI Life (#1) have not only held onto their top positions but also expanded share.
- HDFC Life’s market share has climbed 450bps in all, from 17.2% at end-FY17 to 20.8% in FY23 and further to 21.7% in 2MFY24. Similarly, SBI Life has maintained its #1 position, scaling up from 20% to 21.3% and 23.2% over the same periods respectively. In terms of NBP growth, HDFC Life (22% CAGR) has outdone peers over FY17-FY23 followed by SBI Life (20%). In contrast, at 14% CAGR IPRU stands at the bottom of the private listed pack.
- Individual APE tells a similar tale – IPRU’s market share has dwindled from 22.3% at end-FY17 to 9.9% at end-FY23 and further to 8.6% at end-2MFY24. The two top players have stepped into the breach with HDFC Life’s market share rising 400bps in all to 16.7% (from 12.7% in FY17 and 16% in FY23) and No. 1 player SBI Life up 300bps to 23.7% (from 20.7% and 22.3% respectively). In terms of individual APE growth, HDFC Life has clocked a 20% CAGR over FY17-FY23 followed by SBI Life at 17%, whereas IPRU saw flattish growth (1%).
- In 2MFY24 as well, IPRU’s NBP fell 18% YoY as compared to 9% YoY growth for the private sector and individual APE showed a decline of 14% vs. a 5% cumulative increase for private peers.

Fig 1 – IPRU’s NBP growth has underperformed listed private peers over FY17-FY23...



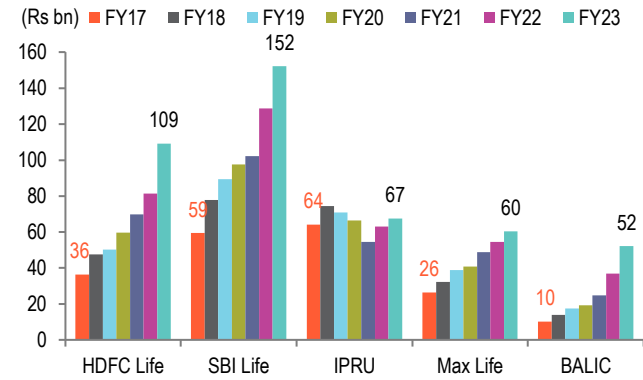
Source: IRDA, BOBCAPS Research

Fig 2 – ...reflected in steady market share loss



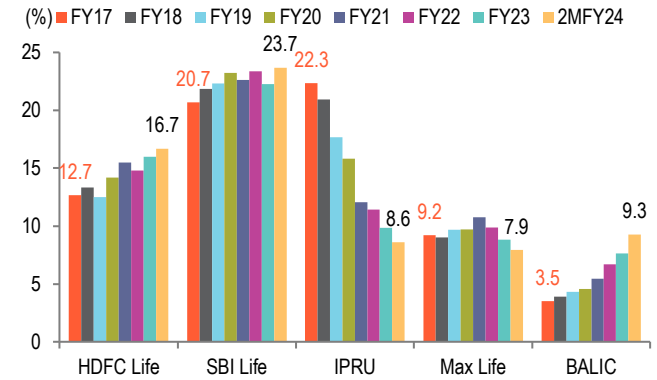
Source: IRDA, BOBCAPS Research

Fig 3 – Individual APE growth has been flattish...



Source: IRDA, BOBCAPS Research

Fig 4 – ...accompanied by loss of market share



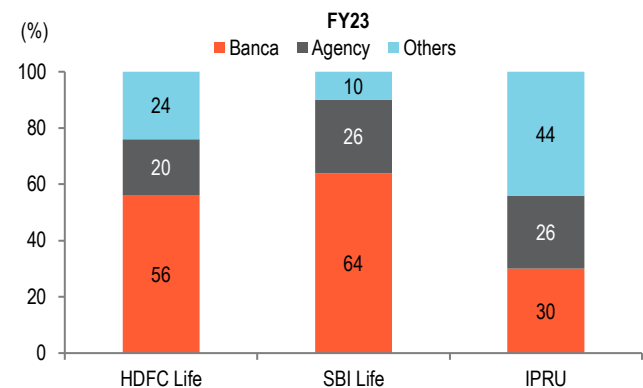
Source: IRDA, BOBCAPS Research

Bancassurance channel fails to deliver

IPRU's growth has been constrained by the loss of business originated by parent ICICIBC. At its peak the parent contributed 51% of APE at end-FY19, but this proportion has declined to just 14% at end-FY23. This can be explained by the bank's strategy of selling selective products, primarily protection and annuity plans, while shunning sales of non-linked savings products.

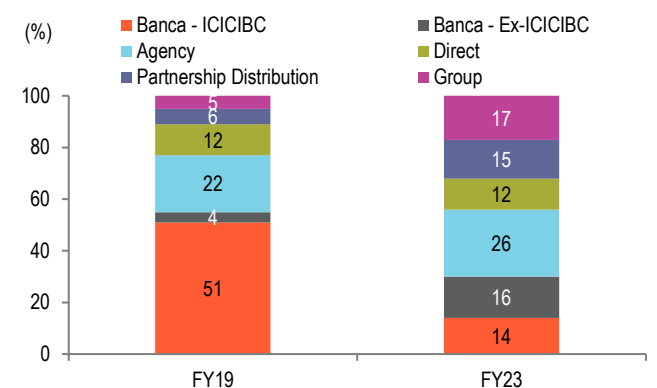
The shoring up of the non-ICICIBC bancassurance channel, where the share of APE originated has quadrupled from 4% to 16% over FY19-FY23, is positive. However, this simply isn't enough amid stiff competition from listed peers who derive a majority of their business from banking partners (55-65% vs. 30% for IPRU) and are aggressively pursuing tie-ups to further augment their bank-driven channels.

Fig 5 – 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 6 – Bancassurance fell owing to ICICIBC's strategy of selling selective products

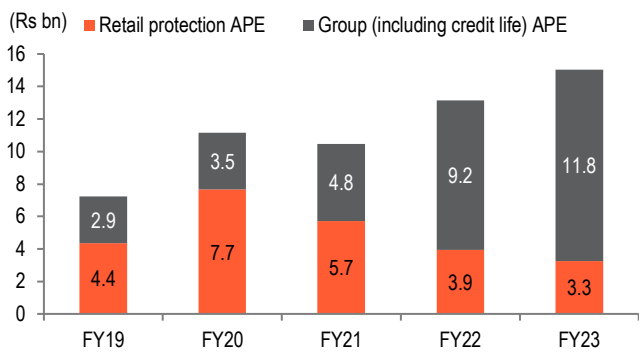


Source: Company, BOBCAPS Research

Retail protection business remains weak

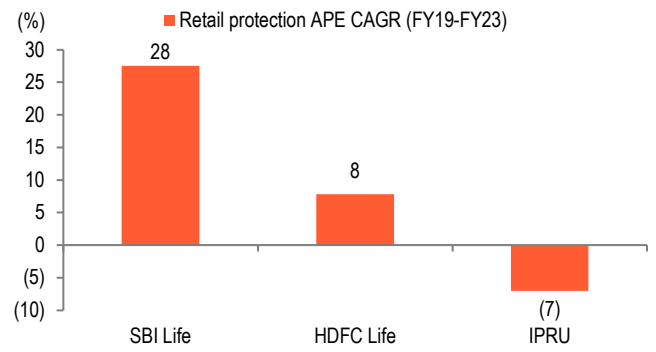
IPRU's retail (individual) protection APE has declined at a 7% CAGR over FY19-FY23 to Rs 3.3bn. The company enjoyed high demand for protection plans in FY20 which turned lukewarm in both FY22 and FY23. Consequently, the retail component of protection APE dwindled to 22% at end-FY23 as compared to 60% in FY19. On the flip side, overall protection APE clocked a 20% CAGR for the period, indicating that group plans including credit life products picked up the slack.

Fig 7 – Retail protection lags for IPRU; group plans do well



Source: Company, BOBCAPS Research

Fig 8 – Retail protection growth the highest for SBI Life



Source: Company, BOBCAPS Research

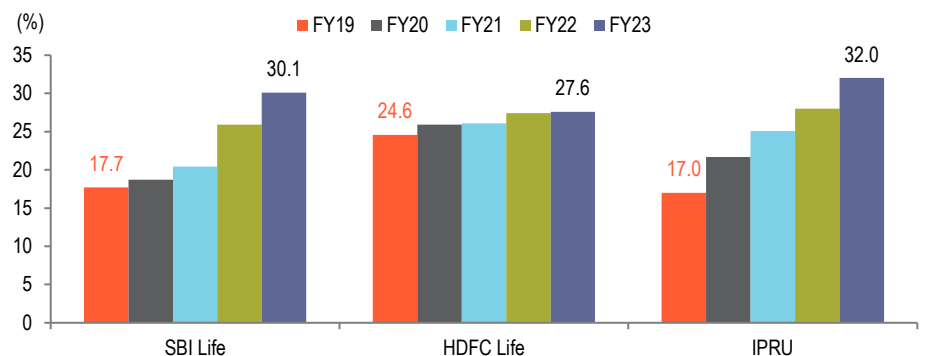
Potential regulatory headwinds

The FY24 union budget sprang a **negative surprise** for the life insurance industry by restricting the tax exemption on income earned from traditional life insurance policies carrying premium above Rs 500,000 (par and non-par, ex-ULIP). Moreover, the government expects 50-55% of taxpayers to gradually shift to the new taxation regime that does away with such exemptions entirely – this could act as a deterrent to customers who purchased life insurance products purely for taxation purposes.

Strong VNB margin a silver lining

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. The company continues to target lucrative products, with high-margin protection plans constituting 17.4% of total APE and non-linked plans forming 43.1% as at end-FY23.

Fig 9 – Stronger VNB margin than peers



Source: Company, BOBCAPS Research

Valuation methodology

IPRU's stock price has rallied ~25% thus far in June and is now trading at 1.8x FY25E P/EV (embedded value). We see no major growth levers to justify the rally and continue to value the stock at 1.5x FY25E P/EV, 2SD below the long-term mean multiple, for an unchanged TP of Rs 494. Given the 15% downside potential from the current price, we downgrade the stock from HOLD to SELL.

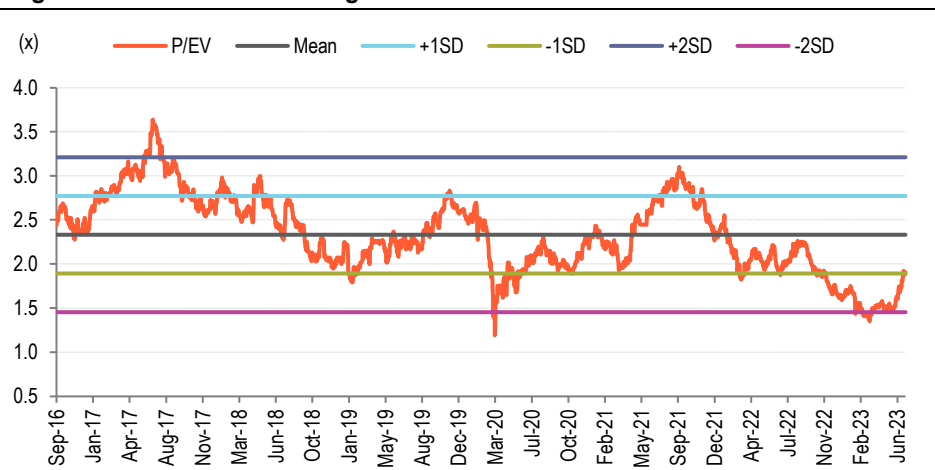
Our valuation incorporates the negatives of (i) continued market share bleed, (ii) subpar NBP and individual APE growth, (iii) business loss from ICICIBC, (iv) weak retail protection APE, and (v) potential regulatory headwinds. The positives of high VNB margin, sound persistency ratios and seasoned leadership (banking veteran Anup Bagchi recently appointed as MD & CEO) are also baked in.

Fig 10 – Valuation summary

Parameter	
Embedded Value (FY25E) (Rs bn)	307
PV of Future business (Rs bn)	405
Total value (Rs bn)	712
Current P/EV (FY25E)	1.8
Implied P/EV (FY25E)	1.5
Implied Target Price (Rs)	494
Current Price (Rs)	580
Upside (%)	(15.0)

Source: BOBCAPS Research

Fig 11 – P/EV 1Y fwd – Trading around -1SD



Source: Bloomberg, 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:** IPRU has been losing market share for several years now. Any reversal of trend will be a positive.
- **Bancassurance channel growth:** If ICICIBC were to alter its marketing strategy to include all types of insurance products or if contribution from other banks rises substantially, business growth could come in ahead of 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 have sizeable business coming from ULIPs.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
HDFC Life	HDFCLIFE IN	17.3	667	600	HOLD
ICICI Prudential Life	IPRU IN	10.1	580	494	SELL
LIC	LICI IN	47.5	617	775	BUY
SBI Life	SBILIFE IN	15.7	1,286	1,520	BUY

Source: BOBCAPS Research, NSE | Price as of 27 Jun 2023

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

Financials

Revenue Account (Technical)

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Gross premium income	3,57,328	3,74,580	3,99,328	4,23,650	4,45,850
First year premium	51,872	59,655	64,938	66,624	73,394
Renewal premium	2,25,068	2,19,557	2,25,203	2,32,113	2,38,990
Single premium	80,389	95,367	1,09,187	1,24,913	1,33,467
Net written premium	3,49,734	3,63,213	3,85,595	4,11,589	4,33,906
Income from investments	4,74,376	2,49,695	99,646	1,91,369	2,03,940
Other Income	16,682	22,737	19,540	20,614	21,923
Total income	8,40,791	6,35,645	5,04,781	6,23,572	6,59,769
Commissions	15,002	16,729	18,639	20,024	21,084
Operating expenses	27,121	37,011	46,459	40,820	42,987
Benefits and bonuses paid	2,26,409	2,93,588	3,10,042	3,15,215	3,16,221
Change in liabilities (net)	5,43,241	2,57,837	98,170	2,12,357	2,39,515
Others	0	0	0	0	0
Total expenses	8,11,773	6,05,166	4,73,309	5,88,416	6,19,805
Surplus before tax	29,019	30,479	31,473	35,156	39,964
Provision for tax	7,965	8,576	8,451	7,671	8,085
Surplus after tax	21,054	21,904	23,021	27,486	31,878
Trf to shareholders' a/c	19,849	21,602	20,162	24,676	27,809
Balance being FFA	1,205	302	2,859	2,809	4,069

Income Statement (Non-technical)

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Trf from policyholders' a/c	19,849	21,602	20,162	24,676	27,809
Income from investments	7,687	10,114	8,761	7,068	7,603
Contr. to policyholders' fund	15,748	21,611	18,024	18,926	19,872
Others	(609)	(1,002)	(1,009)	(1,029)	(1,050)
PBT	11,179	9,103	9,890	11,790	14,490
Provision for taxation	1,213	364	862	1,087	1,357
PAT	9,966	8,739	9,027	10,703	13,133
Dividend+Interim div.+DDT	2,872	793	864	1,440	1,440

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Equity	91,194	91,631	1,00,918	1,06,445	1,17,218
Policyholders' funds	19,10,481	21,71,190	22,83,724	23,07,341	25,46,855
FFA	13,532	13,833	16,693	20,031	21,033
Others	1,57,074	1,67,748	1,57,138	1,84,890	2,13,211
Total liabilities	21,72,281	24,44,402	25,58,472	26,18,707	28,98,317
Shareholders' funds	1,00,902	98,535	98,514	1,03,440	1,13,784
Policyholders' funds	6,35,726	7,73,880	9,43,110	9,98,176	10,78,181
Assets to cover linked liab.	13,85,491	15,08,663	14,40,581	16,63,301	17,46,466
Others	50,162	63,324	76,268	(1,46,210)	(40,114)
Total assets	21,72,281	24,44,402	25,58,472	26,18,707	28,98,317

Key Metrics

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
AUM (Rs mn)	21,42,180	24,04,920	26,26,555	28,04,170	29,76,089
NBP (Rs mn)	1,32,261	1,55,022	1,74,125	1,91,538	2,06,861
APE (Rs mn)	64,620	77,330	86,400	90,112	98,796
VNB (Rs mn)	16,220	21,652	27,648	25,682	28,157
VNB margin (%)	25.1	28.0	32.0	28.5	28.5
Embedded value (Rs mn)	2,91,051	3,16,250	3,56,338	4,11,087	4,72,691
ROEV (%)	15.2	11.0	17.4	15.8	15.3
ROE (%)	11.8	8.2	8.4	9.4	10.9
Opex ratio (%)	7.5	9.8	11.5	9.5	9.5
Cost ratio (%)	11.7	14.3	16.1	14.2	14.2
Solvency ratio (%)	216.8	204.5	208.9	211.0	213.1
EPS (Rs)	6.7	5.3	5.6	6.8	8.5
BVPS (Rs)	63.5	63.8	70.2	74.1	81.6
EVPS (Rs)	202.7	220.2	248.0	286.1	329.1

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

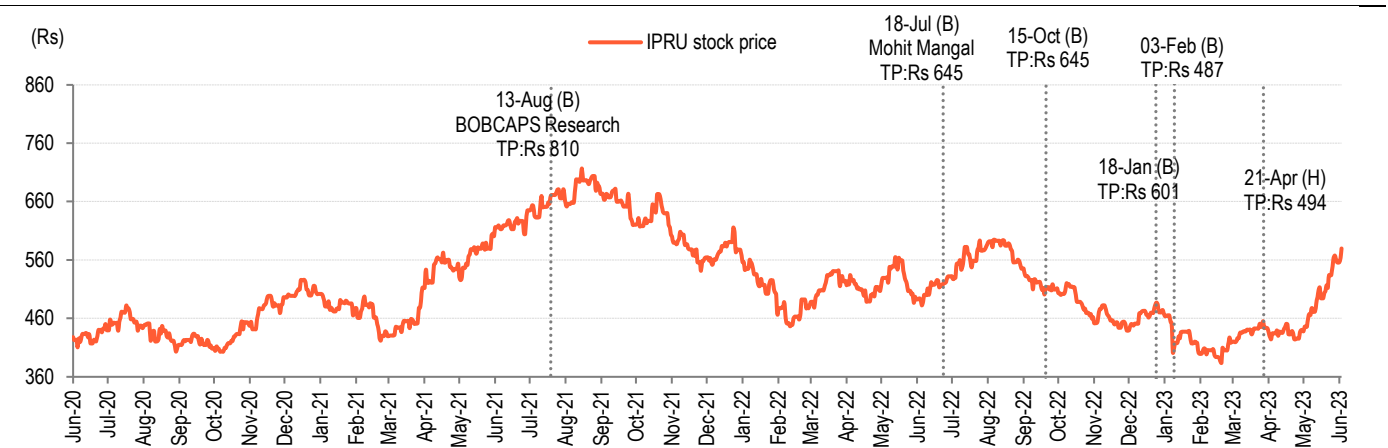
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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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